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A CASE FOR REFORM IN STATE DRIED FRUITS LEGISLATION

David Thurtell
Economics Services Unit
NSW Agriculture
Orange 2800

Abstract

In recent years, the push for micro economic reform by the Federal and State governments has seen statutory marketing arrangements for primary products come under increasing focus. A number of statutory marketing reviews have found that the arrangements in place pose significant impediments to maximum resource use efficiency in the Australian economy. In this light, the following paper examines State dried fruits legislation. It finds that many of the current functions and powers of the State Dried Fruits Boards under the respective Dried Fruits Acts in those States are inhibiting, or have the potential to inhibit, resource use efficiency in the Australian dried fruits industry. Packing licence restrictions imposed by the State Dried Fruits Boards assist the industry's efforts to price discriminate between domestic and export markets, resulting in the misallocation of resources in the industry; the same restrictions have the potential to inhibit innovation and hence maximum efficiency in the packing sector of the industry. Legislative grade standards impose significant costs on the industry and limit both consumer choice and the flexibility of growers and packers to exploit different markets. They also act as a protective device against imported dried fruit. The consumer health aspect of the standards is most properly addressed through general rather than industry-specific legislation.

The *NSW Dried Fruits Act 1939 and the NSW Dried Fruits Board* is currently being reviewed and a report has been submitted to the Minister for Agriculture & Rural Affairs for consideration. The report has been released for public comment prior to Government making a decision on future marketing arrangements. The views expressed in this paper do not necessarily reflect those of the Minister or NSW Agriculture.

1. INTRODUCTION

In recent years the process of micro economic reform has resulted in a number of reviews of statutory marketing arrangements for primary products at both Commonwealth and State level. The general finding is that statutory marketing arrangements pose significant impediments to resource use efficiency in the Australian economy. As a result, legislative reform has moved towards "greater reliance on market forces in a framework of general trade practices law, removal of impediments to efficient marketing of agricultural commodities and the dismantling of some statutory marketing arrangements (SMAs) in cases where they are not relevant in the context of the 1990s" (Industry Commission 1991).

This paper is based on the findings of a review of the NSW dried fruits industry (NSW Agriculture 1991) conducted by NSW Agriculture in 1991. The first section gives a brief outline of the structure of the dried fruits industry, in order better understand the nature of dried fruits marketing. Dried fruits marketing and the role of government is then examined. This puts into context the role of State licensing powers in dried fruits marketing. A review of some other powers of the State Dried Fruits Boards then follows. The paper concludes that the State Dried Fruits Acts in their present form are inimical to optimal resource use efficiency in the Australian dried fruits industry.

2. THE STRUCTURE OF THE DRIED FRUITS INDUSTRY

There are around 5,000 dried fruit growers in Australia, the majority growing dried vine fruit (dvf) using multi-purpose grape varieties in Victoria, New South Wales and South Australia.

The Australian Dried Fruits Association (ADFA) is an association of dried fruits growers[1], with around 4800 members. The ADFA has an exemption from section 45 of the Trade Practices Act which allows it to:

- conduct a scheme of voluntary equalisation amongst its members;
- make arrangements with producers in relation to establishing recommended prices at which, and the terms and conditions upon which, dried fruit is to be supplied by producers of dried fruit; and
- make arrangements which recommend terms and conditions of employment to persons employed as selling agents of producers of dried fruit.

Packers comprise both grower co-operatives and private companies. The principal role of a packing house is to process the dried fruit from the condition in which it is received from growers into a state acceptable to buyers. Packing is capital intensive, requiring

[1] By delivering fruit to an ADFA packer, a grower automatically becomes a "member" of the ADFA. To become a member packer or agent, one must agree to abide by the ADFA rules and regulations.

specialised cleaning and, more particularly, sorting equipment. Economically efficient use of that equipment requires high throughput.

According to the Industry Assistance Commission (IAC), ADFA-affiliated packers handle around 90 per cent of the dvf pack (IAC 1989a). Two groups, the grower-owned Mildura Co-op and the privately owned IP Group, share the bulk of the ADFA dvf pack in roughly equal proportions.

ADFA figures for the period 1977 to 1986 put ADFA production of dried tree fruit other than prunes between 35 and 50 per cent of the total Australian crop. In 1990, all four NSW prune packers withdrew from the ADFA. Since NSW grows the bulk of Australia's prunes this makes the ADFA's current role in the prune industry fairly minor.

Under ADFA rules and regulations, ADFA-affiliated packers do not purchase fruit from growers but act as contract packers and agents. Fruit of a like quality is pooled and all payments to growers, starting with a door (or delivery) payment and then monthly progress payments, come from total funds in that pool net of packing costs.

Each ADFA packer has an exclusive agency agreement with a single agent who is responsible for marketing fruit. Australian Dried Fruit Sales (ADFS) usually handles between 80 and 85 per cent of the Australian dvf crop. ADFS is wholly owned by four packers: 3 grower-owned packers and a privately-owned packer. Country Foods Pty Ltd is responsible for the marketing of most NSW (and therefore Australian) prunes.

The dried fruits industry is thus highly vertically integrated with a significant level of concentration at the packing and wholesale (agents) level. The ADFA acts as the industry's quasi-statutory marketing authority. A Trade Practices Act exemption gives it legal sanction to recommend wholesale prices and the terms and conditions of supply of dried fruit to the domestic market. The ADFA establishes packing and sales agency arrangements which are closely adhered to by a large part of the industry.

3. DRIED FRUITS MARKETING AND THE ROLE OF GOVERNMENT

3.1 The Historical Background to Dried Fruits Marketing

Much of the history of dried fruits marketing has involved the attempted diversion of fruit from the domestic market to the export market in order to exploit varying price elasticities[2] and so raise growers' incomes. Initially, a voluntary scheme existed to divert fruit from the domestic market. With its breakdown, the dried fruits industry then gained Commonwealth and State legislative backing for such a diversion. While the

[2] Australia supplies about ten per cent of the international market in dvf. In the view of the IAC (IAC 1989a), this would appear to preclude our ability to influence aggregate (world) market prices for dvf. Australia's share of the international market for dried tree fruit is fairly small. This suggests that Australia is also a price taker in the world market for prunes and other dried tree fruit.

Commonwealth Government has withdrawn its support, one aspect of State Dried Fruit legislation still indirectly contributes to the diversion of fruit from the domestic market.

In 1907, the Mildura Fruitgrowers' Association and the Renmark Raisin Trust amalgamated to form the Australian Dried Fruits Association (ADFA). The ADFA's charter was to promote the organised marketing of dried fruit throughout Australia. An integral part of this strategy was the use of price discrimination between the domestic and export markets in an attempt to raise growers' incomes. It required its members to sell a proportion of output in foreign markets so as to raise domestic prices.

This strategy worked, although with some minor setbacks, up until the 1920s. A rapid increase in production occurred at that time, principally associated with soldier settlement in the dried fruit producing regions. When world prices started to fall in 1921 the ADFA encountered problems in trying to limit the amount of fruit reaching the domestic market. It called on the Commonwealth Government to give it legislative backing to divert fruit from the domestic market.

In response, the Federal Government in 1924 provided direct financial assistance to growers of dvf for export and, in 1925, established the Commonwealth Dried Fruits Control Board which was responsible for the control of all exports. The Governments of Victoria, South Australia and New South Wales established Dried Fruits Boards which, amongst other roles, allocated a quota to producers for domestic sales enforceable by the threat of confiscation of fruit for non-compliance.

Despite these measures interstate sales still occurred. Attempts by the South Australian Dried Fruits Board to prevent these sales were challenged in the High Court. The Court ruled that the legislation under which the State Boards operated at the time contravened Section 92 of the Constitution which guarantees free-trade between the States. In order to overcome the High Court ruling, the Commonwealth passed legislation in 1928 which allowed the State Boards to act on the Commonwealth's behalf and grant licences to packers. A condition of those licences was that packers had to set aside a quota, established by the respective State Board, for the amount of fruit they could export. The Commonwealth legislation also insisted that the export quota was filled before interstate sales were permitted.

State Boards subsequently conferred to decide how much fruit could be retained on the domestic market. However, in the early 1930s the "James versus Commonwealth" judgement saw the Privy Council declare that section 92 of the Constitution bound not only the States, but also the Commonwealth, to respect the 'absolute' freedom of interstate trade, commerce, and intercourse. Until the later introduction of the statutory equalisation scheme, this effectively ended direct government involvement in the determination of the amount of fruit to be retained on the domestic market.

With legislative attempts to assist industry in the diversion of fruit from the domestic market having been ruled to be in breach of the Constitution, the ADFA in 1937 formed the Murray Industries Development Association Ltd (MIDA) as a vehicle for purchasing packing licenses and hence control the supply of fruit to the domestic market. By the mid

1970s, when the ADFA purchased its last licence, all but one packer was an affiliate of the ADFA.

In 1978, the Federal Government implemented a series of measures to limit domestic sales by the non-ADFA packer which were frustrating the ADFA's efforts at price discrimination. A statutory equalisation scheme was introduced; the Australian Dried Fruits Association (ADFC) was established to administer statutory equalisation and co-ordinate other aspects of export marketing.

According to the IAC (1989a), the statutory equalisation scheme affected the conduct of the industry in two main ways (also see Appendix 2):

(i) The returns received by agents for domestic and export sales were modified thus removing any incentive for agents (acting on behalf of growers) to direct fruit into the highest returning market - in this case the domestic market. **Thus, agents exported a greater proportion of total output than would otherwise have been the case.**

(ii) The returns received by producers for their output were modified, hence distorting their production decisions. The equalised return normally exceeded the export return; in addition, the ADFC was effectively required to market all dvf offered for export sale. Hence, individual producers were given the incentive to expand production even though their marginal costs exceeded the marginal revenue obtained for that production by the dvf industry. The losses incurred by the industry were effectively sustained by the dispersion of some of the high returns gained from domestic sales. **Hence, domestic consumers often effectively subsidised loss-making sales to foreign consumers. From an economic efficiency criteria, resources were used in the production of dried vine fruits that might otherwise have been used more productively elsewhere.**

Following the IAC inquiry into the dried vine fruits industry in 1989, the Federal Government decided to abolish statutory equalisation (with effect at the end of the 1990 season). A voluntary equalisation scheme is now in place, this time with participation the major non-ADFA packer.

The remainder of this section outlines the role played by State dried fruits legislation in the diversion of fruit from the domestic market.

3.2 Restrictions on Licences to Pack Dried Fruits

Under the respective Dried Fruits Acts the State Boards have the power to licence packing houses. Apart from health criteria the Boards are not restricted by the Dried Fruits Acts as to what criteria they may use to judge an application for a licence to pack dried fruit.

The South Australian Dried Fruits Board has in the past three years issued restricted packing house licences, allowing applicants:

- to process only particular varieties of fruit or fruit grown in a particular manner (organically-grown); or

- to only process fruit owned by the applicant.

The Victorian Board, in its submission to the NSW dried fruit inquiry stated that it had not used its licensing power to restrict entry into the packing/re-packing sector of the dried fruits industry. It did not state what criteria is used when evaluating licence applications[3].

In NSW, when applying for a licence to pack dried fruit in NSW, the applicant must be able to show that:

(i) existing capacity is insufficient for industry requirements; or

(ii) they possess significant new technological or marketing initiatives that would benefit the industry as a whole.

Only one new licence has been issued for packing dried fruit in NSW since 1938. This was granted in 1989 to Robinvale Producers Co-operative Company Limited - a Victorian-based packer affiliated to the ADFA - for a shed located at Buronga, NSW. New applications have been made, though all but one have been refused. These refusals, combined with the stated reasons for them, can be expected to have deterred others from applying. Hence the small number of applications cannot necessarily be construed as a lack of potential entrants.

In its submission to the NSW dried fruits review, the NSW Dried Fruits Board stated that it considered "the registration of a packing house to be a matter of supreme importance because of a responsibility to growers to make sure that persons holding a packing licence are sufficiently viable financially to ensure that suppliers will receive equitable payment for fruit delivered."

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[3] The Public Bodies Review Committee of the Parliament of Victoria in its 1988 Report on the Victorian Dried Fruits Board proposed changes to the Victorian Dried Fruits Act which would prohibit the licensing provisions of that Act from being used as a means to restrict entry and competition in the packaging and processing sector of the Victorian dried fruit industry. However, contradicting this proposal the same report recommended that the following two legislative objectives be adopted by the VDFB:

a. to ensure equity in relation to payments to growers; and

b. to ensure the maintenance of product standards of dried fruits for both domestic consumption and export markets

The first objective is very similar to that used by the NSW Dried Fruits Board when arguing for the retention, rather than removal, of licensing restrictions (see above). To date the Public Bodies Review Committee proposal for deregulation of packing licences has not been acted on.

The Board's 'industry need' criteria raises two separate issues for analysis:

1. Equitable return – the Board's primary concern is that growers receive an equitable return for their fruit. How might the power to licence packers raise growers' returns? It is possible that by restricting the number of avenues of supply (packers) the Board enables growers (through the ADFA and its Trade Practices exemption) to price discriminate between the domestic and export markets and so raise grower's returns.

2. Financial viability – the Board's concern is that under the marketing arrangements which predominate in the industry – whereby many packers do not purchase the fruit but simply process and sell it on the grower's behalf – unless packer viability is maintained growers might not get paid equitably for the fruit they deliver.

On the first issue, section 3.1 of this paper detailed the economic effects of price discrimination implicit in the statutory equalisation scheme. In brief, domestic consumers effectively subsidised loss-making sales of dvf to foreign consumers. Moreover, resources were used in the production of dried vine fruits that might otherwise have been used more productively elsewhere.

On the second issue, ensuring a packer's viability does not ensure that growers receive an 'equitable' or, for that matter, any payment for fruit delivered. The Board is implicitly supporting one type of marketing arrangement in the industry – that which sees ADFA-affiliated packers acting purely as contract packers and not as purchasers of the fruit. Alternative arrangements are possible. Full payment at delivery would mean that the growers would not face the risk of declining prices after they had delivered their fruit; in addition, it would eliminate the credit risk associated with delivering fruit to a packer and not being paid. In the absence of the Board's restrictions, market forces might see individual packers and agents using indemnity insurance, or the growers' themselves could take out 'del credere' insurance[4] as is now the practice in the grain industry.

As a more general point, the licence restrictions prevent competitors from entering the industry. Industries protected from competition typically lack innovation and are relatively unresponsive to the needs of the market resulting in inefficiencies and a wastage of resources. A submission to the NSW Agriculture dried fruits review by Kellogg (Australia) Pty Ltd – one of the largest users in Australia of sultanas for processed food – suggests that the quality of Australian dried fruit is problematic but that the industry's representatives seem unconcerned and unresponsive to Kellogg's concerns. As a result of quality problems, in September 1991 Kellogg decided to forego 1500 tonnes of Australian fruit and instead draw all of its requirements for the coming year from Turkey.

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[4] 'Del Credere' insurance is taken out by the seller of a crop to cover against payment default by the buyer. It can be taken out for an individual consignment or for the entire crop. The premium is a set proportion of the value of that consignment.

4. THE PROBLEMS POSED BY OTHER ASPECTS OF THE STATE DRIED FRUITS LEGISLATION

This section analyses other aspects of the State Dried Fruits legislation which are inhibiting, or have the potential to inhibit, resource use efficiency in the Australian dried fruits industry.

4.1 Legislative Grade Standards and Quality Controls

Under the various Dried Fruits Acts, the State Boards are empowered to make recommendations for the fixing of grade and quality standards for fruit produced in their State. In practice, the Boards adopt[5] the Commonwealth export standard in order to avoid the need for the industry to segregate fruit destined for the domestic market (which needs to comply only with State standards) from fruit destined for export (which needs to comply with Commonwealth standards). Further, Section 21(2) of the NSW Dried Fruits Act – concerned with retail inspection powers – gives the NSW Board the power to enforce the same (domestic and export) standard on re-packed (usually imported) fruit.

The grade standards basically specify the category under which a fruit is classed. For example, dried currants and sultanas are classed in "crown" grades, ranging from one crown to a top of seven for sultanas and six crown for currants; below one crown comes manufacturing grade, which in turn has sub-grades A,B etc. Fruit classed as "manufacturing grade" must be used for manufacturing purposes only. Quality standards are concerned with different levels of moisture content and waste or mould, the number of pieces of stalk and capstem, the number of immature or damaged berries allowed, and the amount of other foreign substances permitted to be packed.

The November 1991 Premier's Conference agreed to adopt Mutual Recognition of all State/Territory standards by January 1993. Under 'Mutual Recognition', goods produced in, or imported into one State/Territory and which meet the requirements for sale in that State/Territory, can be sold in any other State/Territory without restriction. This, combined with scheduled tariff reductions in the coming five years[6], has significant

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[5] The Victorian Dried Fruits Act, 1958, was amended in 1990 to provide for the adoption of the Export Control (Dried Fruit) Orders by reference. The NSW Dried Fruits Board has been seeking to formally adopt the Commonwealth Export Control (Dried Fruits) Orders as the NSW standards for all dried fruits except prunes.

[6] Duties on the import of dried fruits into Australia at present are:

	General	Concessional (developing country)
Vine fruits	17%	12%
Tree fruits	10%	5%

The General Tariff is to be phased down to 5 per cent for all dried fruit by 1996; with the developing country concession of 5 per cent still applying this effectively means a nil rate of duty on imports from developing countries such as Turkey, Mexico, Chile, Iran and Afghanistan – all producers of dried fruit.

implications for the dried fruits industry. In non-producing States and Territories, dried fruits must meet the requirements of the Food Standards Code: they need only be fit for human consumption to be marketable and do not need to meet any grading or quality standard before they can be marketed as dried fruit. As such, Mutual Recognition will mean that some imported fruit which the State Dried Fruits Boards currently deem to be of manufacturing standard only could actually be sold at a retail level in those respective States via a non-producing State/Territory, as long as it met consumer health tests under the non-producing State/Territory's Food Act[7].

4.1.1 The arguments for legislative grade standards and quality controls

Arguments put forward for legislative grade and quality standards include:

i) Cost reduction – the establishment of legislative grade and quality standards is often seen as facilitating sale by description and hence a measure to reduce costs in an industry.

ii) Consumer protection – such controls are seen by producers as essential for the protection of the consumer. Firstly, there is an argument that consumer health is threatened by a product with too much grit and foreign matter, including harmful residues. The dried fruits industry has, with the help of the State Dried Fruits Boards[8], initiated testing for chemical residues. The Boards also inspect packing houses, dehydrators and drying grounds to ensure that the fruit is prepared under hygienic conditions. Second, it is argued that the consumer will be misled into purchasing a lower grade or quality of fruit unless proper controls are imposed.

iii) Industry protection – the corollary to the consumer protection argument is that legislative grade standards and quality controls are necessary to prevent some producers placing a poor quality product on the market thus damaging the reputation, and sales, of the whole industry.

4.1.2 The arguments against legislative grade standards and quality controls

While sale by description may reduce costs, there are no impediments to such a system being established by an industry body such as the ADFA without legislative backing.

The Health Department in each State conducts tests for chemical residues and examines food products for other foreign matter under the respective State Food Acts. In NSW, food which the Health Department feels is consumed on a daily basis (and hence is a higher risk) is regularly tested and examined; food consumed less frequently is subject to survey tests. The NSW Pure Food Act prohibits the sale of food which is unfit for human

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[7] The IAC (1989b) recommended that the National Food Standards Council urge State governments to repeal elements of State product acts which duplicate or are inconsistent with the requirements of the Food Standards Code.

[8] The NSW Dried Fruits Board has the power to control the movement of dried fruits to and from packing houses. Under the chemical residue testing scheme, fruit cannot be released from a packing house until tests on the fruit show it is free of contaminants.

consumption. Without exploring the bona fides for general consumer protection legislation such as the Food Act, it is much more practical to have one Act covering the marketing of all food products than to have a separate Act for every food item.

The industry protection argument is unlikely to be valid for the dried fruits industry. The IAC (1989b), when examining compulsory export quality controls, stated:

> "generally, the more processed the food product the greater the opportunities for product differentiation that minimises damage to an industry's reputation from individual failures to satisfy overseas consumers. Brand naming and labelling of more highly-processed foods enables manufacturers to differentiate their products...and...provides an incentive for firms to produce goods of consistent quality and to establish long-term relationships with customers".

Of total dried fruit production in Australia, around fifteen per cent is packed into consumer packs; the rest is put into 12.5 kg cartons for use in domestic manufacturing or for export. Both of these methods enable packers to differentiate their product. It is highly unlikely that domestic consumers and buyers of Australian fruit would perceive the fruit as coming from the one source. Moreover, the lack of legislative standards would be likely to encourage greater differentiation. The legislative standards restrict the description of fruit to a limited number of categories with certain names. Their removal would allow packers scope to use their own descriptions.

There is a risk that legislative grade and quality standards will be used as de facto supply controls by limiting consumer's access to produce, including that sourced from overseas. As pointed out by the Food and Beverage Importers Association (1991):

> "grade standards have been fixed according to Australian varieties of dried fruit. No allowance is made for varietal differences between imported and Australian fruit. This flaw has caused particular problems for importers of Turkish apricots who have been subjected to regular campaigns alleging their products do not comply with NSW standards".

Despite the fact that there are considerable (and increasing) levels of imports and that they must comply with the legislated grade and quality standards, importers have a very limited opportunity to partake in the formulation of the standards. In NSW for example, the standards are set by the five members of the NSW Dried Fruits Board, four of whom are NSW dried fruit growers.

Quality controls add to the costs of processors; these higher costs may not be recouped in the price achieved for the product. Moreover, producers may be impeded from exploiting potentially profitable markets. This may be due to the uniform application to all markets of a standard developed largely in response to the requirements of one of those markets - usually a major export market. The IAC(1989b) recommended "exporters be permitted to assume all the risks of gaining access for highly-differentiated foods (such as branded products) to overseas markets and, to achieve this objective, export quality controls be

removed from such foods where government certification is not required by the importing country"[9].

4.2 Grading Dried Vine Fruit

The NSW and Victorian Boards currently both grade and arbitrate in disputes over the classification of dried vine fruit[10]. Using funds raised from levies on growers the Combined Classing System (CCS) employs classers to determine the grade and quality of fruit received by packers; classers are rotated around the packing houses to ensure uniformity in the interpretation of the standards. Previously, classers were employed by packers.

According to the Review of the Victorian Dried Fruits Board (Public Bodies Review Committee 1988), the change over to the CCS arose from grower concern over variations in grading and classification between packing sheds. To attract throughput, some packers over-graded the larger deliveries; they compensated for this by under-grading the smaller producers, taking the risk that if the small producer chose to go elsewhere overall throughput would not be greatly affected. The economic impact of these discrepancies was overcome at the packing shed level by the mixing of fruit pooled in the premises.

A likely reason for the discrepancies in grading was the inability of packers to offer quantity (or tonnage) premiums to growers. Given the fixed costs involved in a packing house, continued throughput is essential. Throughput is maintained by securing large deliveries. Moreover, packers' administrative costs will be lower if they pack a small number of large deliveries than if they pack a large number of small deliveries. Therefore, had there been quantity (or tonnage) premiums under the ADFA rules the Boards would probably not have established the CCS.

Regardless, there is nothing to suggest that a market failure occurs when packing shed employees class the fruit received from growers. The practices of packers prior to the establishment of the CCS were a rational response to the inadequacies of the ADFA rules and the pressures of competition in the packing industry. Even if there is a market failure, the costs to the NSW and Victorian Boards – or in their absence an industry association such as the ADFA – of employing a pool of classers may well outweigh the potential loss of income of growers from under-grading.

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[9] AQIS reviewed the dried fruit standards in 1990 with a view to removing compulsory export quality controls. AQIS recommended the industry adopt the Approved Quality Assurance (AQA) arrangements. Under these arrangements, with the exception of health and safety criteria, companies would be able to develop their own quality specifications based on customer's requirements and to set up approved quality control systems to ensure that those specifications are met. The AQIS proposal was opposed by the dried fruits industry. This was despite the ADFA's stated commitment (ADFA 1988) to a move to industry-managed quality assurance subject to DPIE/AQIS audit.

[10] In South Australia and in the NSW prune industry, classers are employed by the packers but the South Australian and NSW Dried Fruits Boards arbitrate in disputes over classification in the respective industries.

5. SUMMARY AND CONCLUSIONS

Consistent with the findings of a number of reviews of statutory marketing arrangements for primary products over recent years, this paper finds that many of the current functions and powers of the State Dried Fruits Boards under the respective Dried Fruits Acts in those States are inhibiting, or have the potential to inhibit, resource use efficiency in the dried fruits industry.

Packing licence restrictions imposed by the State Dried Fruits Boards assist the industry's efforts to price discriminate between domestic and export markets, resulting in the misallocation of resources in the industry; the same restrictions have the potential to inhibit competition and hence maximum efficiency in the packing sector of that industry. Legislative grade and quality standards impose significant costs on the industry and limit both consumer choice and the flexibility of growers and packers to exploit different markets. They also act as a protective device against imported dried fruit. The consumer health aspect of the standards duplicates the legislative role of the Department of Health in the producing States. The (Victorian and NSW) Dried Fruits Boards grade dried vine fruit despite the fact that there is no demonstrable market failure in the grading of fruit.

General tariff reductions and the November 1991 agreement for Mutual Recognition of Goods by the State/Territory Governments will see import penetration accelerate over the next few years. In order to compete, the domestic industry needs to be as dynamic and as innovative as possible. This is most likely if the industry is open to competition and is not constrained by unnecessary government regulation, the origins of which go back more than sixty years when imports of dried fruit were almost non-existent. Substantial changes to the State Dried Fruits Acts would enhance the competitiveness of the Australian dried fruits industry and eliminate income transfers and efficiency losses that presently exist under the current arrangements.

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Appendix 1 - Mutual Recognition

The November 1991 Premier's Conference saw an agreement signed by the States/Territories which will see a move towards mutual recognition of all State/Territory standards. The mutual recognition principle is that goods produced in or imported into one State/Territory, which meet the requirements for sale in that State/Territory, can be sold in any other State/Territory without restriction.

For the purposes of interstate trade in dried fruits, mutual recognition should have no discernible impact. All four producing States adopt (formally or informally) the Commonwealth standards as set out in the Commonwealth Export Control (Dried Fruit) Orders; unless one State drops its standards there will be no commercial pressure to lower standards from their present levels.

Probably of more significance however, in Queensland, Tasmania, the Northern Territory and the Australian Capital Territory, dried fruits must meet the requirements of the Food Standards Code: they need only be fit for human consumption to be marketable, and do not need to meet any grading or quality standard before they can be marketed as dried fruit. As such, mutual recognition will mean that imported fruit which the NSW Dried Fruits Board currently deems to be of manufacturing standard only could actually be sold at a retail level in NSW, via a non-producing State/Territory as long as it met consumer health tests under that State or Territory's Food Act.

The current - and likely future - absence of dried fruit grade standards in Queensland, Tasmania, the A.C.T or the Northern Territory may see some relocation of packing and repacking sheds to those States and Territories. The increased competition from imported dried fruit could see some rationalisation of packing sheds and possibly reduce the viability of some marginal dried fruit producers. In addition, pressure from industry should see a lower standard adopted in producing States.

As previously outlined, all domestically grown dried fruit is tested for chemical residues and must be cleared before it is allowed to be packed. As far as imported dried fruit is concerned, the Imported Food Risks Advisory Committee has concluded that imported dried fruits other than figs and dates pose a low risk to consumer health to the extent that such dried fruit will not be automatically subject to checks upon entry to the country. If too many problems are encountered with the imported product, the Committee will be obliged to reassess this classification. For these reasons a unilateral prohibition on dried fruits - whereby the State/Territory may legislate to prohibit the entry of certain products where certain essential minimum standards have not been met - is unlikely.

Appendix 2 – Equalisation

Under the statutory equalisation scheme put in place by the Commonwealth Government in the late 1970s, each season saw a separate varietal levy on all dvf sold on the domestic market. The levy was determined by the ADFC on information obtained primarily from the ADFA, and was intended to reflect the amount by which the projected average return from the domestic market exceeded the projected average export return[11]. Dried vine fruit prices, volumes, equalisation levies and payments under statutory equalisation for the period 1982–90 are presented in Table 1.

The projected average domestic return almost always exceeded the projected average export return because the ADFA's Trade Practices Exemption enabled it to set the domestic price above the projected export price. Having set the domestic price the industry would supply all that was demanded at that price. The upper limit to which it could raise the domestic price was the point at which imports became a significant threat. The price of imports was raised by tariffs imposed to protect domestic growers.

The levies raised from domestic sales were credited to a fund consisting of separate varietal accounts and then distributed to packers (and then growers) as part of the equalisation payments on all production of dvf in that season. The equalised (averaged) return to growers was almost always markedly higher than the export return, more than 100 per cent in some years.

Under the voluntary equalisation arrangements, on the basis of sales statements obtained from participating agents, the ADFA makes equalising adjustments to compensate for the difference between the returns an agent (grower) receives for sales of each dvf variety, and the average value of such sales.

The principles of the equalisation scheme for dried vine fruits are presented diagrammatically below.

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[11] If the projected average domestic return was $1500/tonne while the projected average export return was $1000/tonne, the levy was set at $500. When an agent sold a tonne of fruit domestically he was forced to pay $500 of the proceeds into the Dried Vine Fruit Equalisation Trust Fund.

Table 1: DVF prices, volumes, equalisation levies and payments; 1982–90[a]

YEAR[b]	DOMESTIC PRODUCTION TONNES-DRY	PRICE[c] $/TONNE	LEVY[d] $/TONNES	SALES[e] TONNES	EXPORT PRICE[f] $/TONNE	SALES TONNES	EQUALISATION PAYMENTS[g] $/TONNE
				SULTANAS			
1982	81211	1352	492	22910	871	52890	148.24
1983	75806	1456	630	23540	869	53730	238.89
1984	80644	1459	860	21035	669	59335	262.27
1985	65605	1613	530	25808	1178	50134	193.83
1986	77891	1760	536	25687	1240	51268	190.48
1987	62369	1933	400	23911	1525	40197	141.25
1988	72061	2076	695	21988	1365	48795	212.85
1989	57303	2073	646	21072	1415	36231	233.95
1990	54886	2160	462	22061	1665	32825	180.29
				RAISINS			
1982	8747	1200	520	3373	668	2455	272.17
1983	4218	1435	790	3465	646	2430	686.80
1984	1105	1563	exempt	2915	630	75	–
1985	2556	1609	exempt	2224	1984	179	–
1986	5733	1600	exempt	2958	1358	1833	–
1987	7053	1539	543	3345	1190	904	270.00
1988	2816	1755	exempt	3318	1190	2228	–
1989	2709	1772	exempt	2379	1133	330	–
1990	4408	1881	273	3013	1280	1144	–
				CURRANTS			
1982	7317	1332	432	4735	917	2540	291.84
1983	4842	1529	570	3498	961	1082	446.16
1984	4930	1475	exempt	3399	759	601	–
1985	6671	1636	866	4542	768	2850	495.09
1986	7156	1710	546	4866	895	2451	367.79
1987	5852	1845	434	4629	1329	984	348.62
1988	4752	2029	444	4134	1435	621	387.48
1989	4374	2036	exempt	4195	1521	179	–
1990	5813	2085	223	4417	1841	1396	165.95

a. Data from 1982 till 1988 were taken from the IAC's 1989 report on The Dried Vine Fruits Industry and from various annual reports of the State Dried Fruits Boards. The IAC's sales data includes fruit carried over from previous seasons. Data for the past two seasons is from the ADFA and the Australian Dried Fruits Board.

b. Marketing year commencing 1 March.

c. Average return to packers from domestic sales before deduction of the levy.

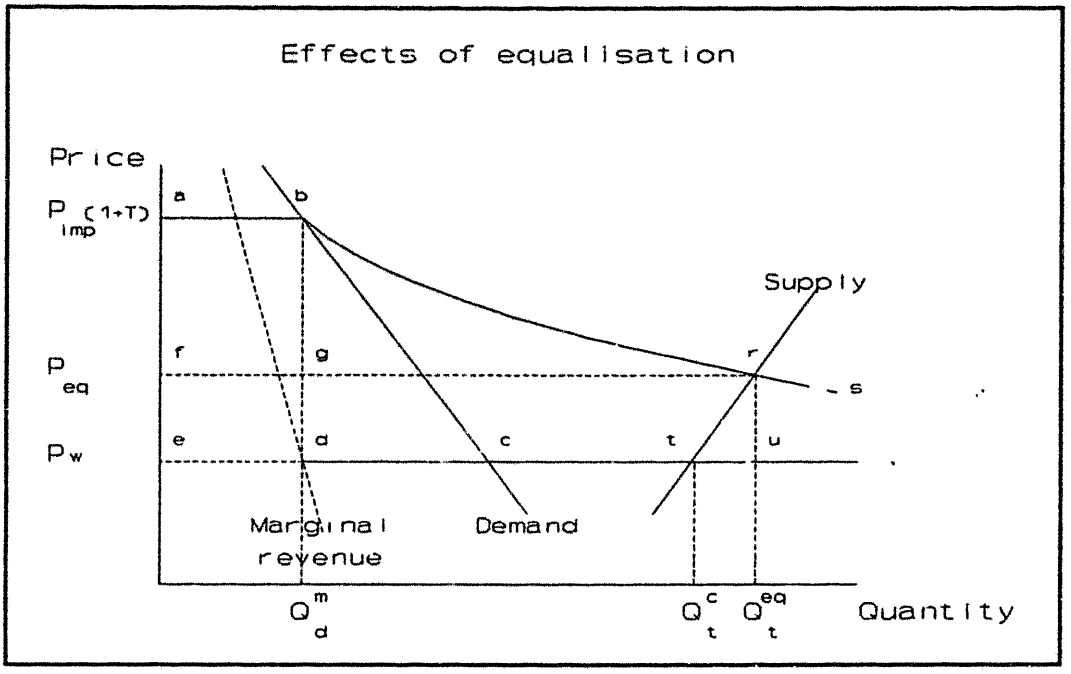
d. Subject to a constraint on the maximum equalisation payment (see text), the levy is set as the amount by which estimated average returns from domestic sales are expected to exceed estimated average returns from export sales, for that season's production. The domestic and export prices (returns to packers) shown in this table are not those estimated, but those actually realised.

e. Domestic consumption excluding imports.

f. Average returns to packers from export sales, excluding the equalisation payment.

g. The equalisation payment is the dollar amount per tonne distributed over all production for that season to equalise returns from both domestic and export sales. As an illustration, in 1985 a levy of $530 per tonne of sultana domestic sales of 25808 tonnes would have yielded $13.7 million in levy collections which, when spread over domestic production of 65605 tonnes implies an equalisation payment of about $208 per tonne. This illustrative result differs from the $194 per tonne shown because domestic sales in 1985 were drawn from both production in that year and from carryover stocks; these stocks were subject to the previous year's equalisation payment.

Figure 4 – Effects of equalisation



Domestic price and quantity are represented by $P_{imp}(1+T)$ and Q^m_d respectively. All export sales attract the world price, Pw. With the domestic levy on all sales of dried fruit in Australia, a higher price, $P_{imp}(1+T)$, is charged on the domestic market. The domestic market is concurrently isolated from imports by the imposition of a tariff, T. Producers receive an equalised price, designated by the line, ***abs***. The segment ***ab*** is defined because when sales are made only in the domestic market, the equalised price equals the domestic price. Additional sales made in export markets attract the lower world price (Pw). As these sales increase, the revenue obtained in the domestic market is dispersed across an increasing number of export sales. Hence, the equalised price declines, and tends towards the world price. This is shown by the rectangular hyperbola, ***bs***.

Because the equalised price (Peq) exceeds the actual price obtained in export markets, an incentive exists for unprofitable sales in those markets. Export sales expand from $Q^c_t - Q^m_d$ to $Q^{eq}_t - Q^m_d$, resulting in a deadweight loss on those sales shown by the area ***rut***. Because these losses are sustained by the dispersion of monopoly profits made on the domestic market, domestic consumers are effectively subsidising unprofitable dried vine fruit export sales. There is an income transfer from consumers to producers as the returns from domestic sales are used to support export prices. Economic rents to producers increase by the area ***frte***. Consumer surplus loss is the area ***abce*** (assuming competitive price, Pw), and there is a dead-weight loss on consumption shown by the area ***bcd***.