

LEGISLATIVE RESEARCH SERVICE
DEPARTMENT OF THE PARLIAMENTARY LIBRARY

BANKING LEGISLATION AMENDMENT BILL 1986

Date introduced: 24 September 1986
House: House of Representatives
Presented by: Hon. Chris Hurford, M.P.,
Minister Assisting the Treasurer

DIGEST OF BILL

Purpose

To abolish the Rural Credits Department (RCD) of the Reserve Bank, to provide transitional provisions relating to the abolition and to make minor amendments to the Reserve Bank Act 1959 (the Principal Act).

Background

The RCD was established in 1925 with the aim of providing finance to primary producers. At that time the Australian financial system was in its infancy and largely incapable of providing the finance necessary to lend to primary producers. Advances are made by the RCD to eligible marketing authorities and co-operatives to assist them to market, process and manufacture primary produce. The advances allow borrowers to pay primary producers part of the value of their produce prior to its sale. A wide range of commodities is financed including barley, canned and dried fruits, cotton, dairy produce, eggs, oats, rice, peanuts and sugar.

When introduced, the RCD was not intended to subsidise primary producers. In the Second Reading Speech to the Commonwealth Bank (Rural Credits) Bill on 20 August 1925 the then Treasurer, Dr Earle Page, stated that no government aid would be sought or given and transactions would be on a purely commercial basis.[1] However, in subsequent years a subsidy element was introduced and the RCD began to lend at concessional interest rates. This trend has been reversed in recent years and the RCD's current interest rates are market based. For example, at the end of June 1985 interest rates were in the range 17.25% to 19%.

The volume of loans provided by the RCD is dependant on seasonal, climatic and market conditions. However, over recent years the volume of loans provided has decreased as alternative sources of finance have become more available. For example, the Australian Barley Board, a major RCD customer in 1982-83, accepted a private tender to fund the 1983-84 crop. The maximum amount on loan declined from the 1979-80 peak of \$910 million to \$496 million in 1981-82, \$432 million in 1982-83, \$419 million in 1983-84 and \$347 million in 1984-85.[2]

Another important aspect of the RCD is to fund rural research. Half of the RCD's net profits is appropriated to the RCD Development Fund and is distributed by means of grants to various organisations engaged in rural research. Approximately \$3 million will be made available in 1986-87. In the Second Reading Speech to this Bill the Minister stated: 'Consideration will be given to supplementing funds available for rural research in future years as the activities of the RCD are phased out'.

The functions of the RCD were examined by two recent reports on the Australian financial system. The Final Report of the Committee of Inquiry into the Australian Financial System (the Campbell report), dated September 1981, recommended that the RCD be phased out with appropriate transitional arrangements.[3] This view was supported in the Report of the Review Group into the Australian Financial System (Martin report) which was delivered in December 1983.[4]

The decision to abolish the RCD was announced by the Acting Treasurer in a statement on economic and rural policy released on 15 April 1986.

Main Provisions

Clause 8 will insert a new section 65A, titled Winding up of Rural Credits Department, into the Reserve Bank Act 1959 (the Principal Act). Proposed sub-section 65A(1) will prohibit the Reserve Bank from making advances under the rural credits provisions after the 'termination date'. This is defined in proposed sub-section 65A(11) to be 30 June 1988 or such later date as the Treasurer determines.

Proposed sub-section 65A(2) will allow the Board of the Reserve Bank to authorise that any surplus in the RCD be paid out of that account while proposed sub-section 65A(3)

will authorise the Board to pay out any remaining funds when all debts due in respect of the RCD have been paid, all advances repaid and all profits accounted for. Before making such a decision the Board is to consult with the Treasurer (proposed sub-section 65A(4)). Where such a decision is made, the Treasurer is to determine what proportion of such funds is to be allocated to the Reserve Bank Reserve Fund and to the Commonwealth (proposed sub-section 65A(6)). The Treasurer will be required to consult with the Board before making such a decision (proposed sub-section 65A(7)). Payments to the RCD after its winding up will be paid into the Reserve Bank Reserve Fund (proposed sub-section 65A(9)).

The Schedule to the Bill will amend the Principal Act in a number of formal ways and will remove sexist language.

For further information, if required, contact the Economics and Commerce Group.

23 October 1986

Bills Digest Service
LEGISLATIVE RESEARCH SERVICE

References

1. Report of the Review Group on the Australian Financial System, December 1983, p.293.
2. Annual Reports of the Reserve Bank 1982-83 to 1984-85.
3. Final Report of the Committee of Inquiry into the Australian Financial System, September 1981, p.33.
4. Report of the Review Group on the Australian Financial System, December 1983, p.293.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.



© Commonwealth of Australia 1986

Except to the extent of the uses permitted under the Copyright Act 1968, no part of this publication may be reproduced or transmitted in any form or by any means, including information storage and retrieval system, without the prior written consent of the Department of the Parliamentary Library. Reproduction is permitted by Members of the Parliament of the Commonwealth in the course of their official duties.