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Australia's Agricultural Competitiveness White Paper

Report Categories:

Agricultural Situation

Agriculture in the Economy

Agriculture in the News

Trade Policy Monitoring

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Report Highlights:

In July 2015, the Australian government released its long-anticipated White Paper, a 'new policy platform' for the agricultural sector aiming to increase its overall competitiveness and resilience against seasonal and market fluctuations. The revised approach covers a broad range of areas including competition policy, drought preparedness, R&D, regulatory reform, tax offsets, biosecurity, market access and education and training. Farmers and agribusiness are generally supportive of these measures, some of which were already announced in the Budget or other legislation. The White Paper endorsed changes to foreign investment policies affecting acquisitions of land and agribusinesses, as well as the establishment of a register of foreign investment in these areas. U.S. investors in Australian agricultural land or related businesses will be affected by these new arrangements, although investments below A\$1 billion do not need approval.

Overview

The Australian government has released a [White Paper on Agricultural Competitiveness](#) to provide a framework for policy affecting the agricultural sector. The July 2015 report was informed by over 1000 submissions and followed an [Agricultural Competitiveness Green Paper](#). It contains a number of new government measures to increase the sector's competitiveness in areas such as competition policy, drought management, market access, tax offsets, biosecurity and education and training.

The [Minister for Agriculture](#) Barnaby Joyce said the initiatives would help develop a better business environment for agriculture by increasing farm gate returns, improving risk management and encouraging investment. Mr Joyce called the White Paper is 'an A\$4 billion dollar investment in the future of agriculture'. Major items include: up to A\$250 million in drought concessional loans each year for eleven years, a A\$500 million National Water Infrastructure Fund; A\$200 million to improve biosecurity surveillance; and a A\$100 million extension of the Rural R&D program. Over the next four years, the government has also budgeted over A\$220 million for drought programs, in addition to A\$2.75 billion in drought concessional loans over the next 11 years.

The Competitiveness White Paper supports and augments a number of policies for the agricultural sector which were announced in the federal [Budget](#) for 2015. It also complements proposals and policies outlined in the Northern Australia [White Paper](#). The [White Paper on Agricultural Competitiveness](#) also outlines tax incentives for farmers to prepare for drought, improve water infrastructure and extends their opportunities to save through Farm Management Deposits scheme. Later in 2015, a [White Paper on Taxation](#) will be released, which is likely to consolidate taxation policy for the agricultural sector.

Drought Management

The Australian government has established an A\$500 million National Water Infrastructure Fund, comprised of A\$50 million to undertake the planning on water infrastructure investment decisions and A\$450 million to construct national water infrastructure. The White Paper also builds on the initiatives announced in the 2015 [Budget](#) to assist Australian farmers prepare for drought and other natural risks including investing an additional A\$30 million for farm insurance advice and risk assessment grants.

The White Paper provides long-term drought support for farmers, including: up to A\$250 million in [drought assistance concessional loans](#) each year for 11 years; A\$23 million to increase the [farm household allowance](#) for farmers; A\$35 million for local infrastructure projects to help communities suffering due to drought; and A\$26 million over four years to manage pest animals and weeds in drought-affected areas. Drought preparedness, risk management, better climate forecasting, more favorable tax deduction and depreciation arrangements and local infrastructure projects to sustain rural communities through drought are all funded through the White Paper process.

Water Policy

Currently, Australian water policy uses market prices to reflect scarcity. In 2012, around 60 percent of the water used in Australia was used for agriculture with the output from irrigated land accounting for 30 percent of the gross value of agricultural production ([Australian Bureau of Statistics](#)). Australia's water availability varies significantly by region, with 65 percent of run-off occurring in far north Australia and coastal Queensland and only 7 percent in the Murray Darling Basin ([Department of Agriculture](#)).

Access to irrigation water from bores or river systems is licensed by the State governments, which also own major water storages on rivers. Distribution of irrigation water from state owned facilities is managed by utilities which charge fees for delivery. Increased trading of water is occurring in Australia to create more efficient allocation of the resource between competing users. The Green Paper reports that water trading helped ensure that scarce water was available to higher value users in droughts in the 2000s.

The [White Paper on Agricultural Competitiveness](#) aims to build more dams and fund extra irrigation projects across the country using a mix of private funds and government money. It adds another A\$300 million to the National Water Infrastructure Fund. The recently released Northern Australia [White Paper](#) established that fund with A\$200 million. A total of A\$50 million will go towards scoping studies to investigate opportunities for new dams and water infrastructure nationally, with A\$450 million to be available for construction.

Competition Policy

The [White Paper on Agricultural Competitiveness](#) observed that competition policy is relevant to agriculture because of the concentration of retail power in a few supermarkets which handle a high percentage of meat, dairy, fruit, vegetables and other farm products sold in Australia. In recent years, agriculture has been exposed to falling farmer margins and reduced bargaining power over pricing of farm products relative to retailers.

To ameliorate this situation, the Australian government will establish an [Australian Competition and Consumer Commission](#) (ACCC) Commissioner dedicated to agriculture as well as supporting capability at the ACCC concerned with agriculture supply chain issues. The ACCC will be expected to encourage fair-trading and strengthen competition in agricultural supply chains. The government has also introduced a [Food and Grocery Code of Conduct](#) and the [Mandatory Port Access Code of Conduct for Grain Export Terminals](#). The Government has also announced an independent review of the mandatory Horticulture Code of Conduct, to be completed in 2015. The review will recommend improvements in the clarity and transparency of arrangements between growers and traders.

Research and Development

Investment in Australian research and development (R&D) and adoption on-farm through extension (technology and innovation diffusion) contribute to the competitiveness of Australian agriculture. About one third of rural R&D goes to the rural research and development corporations (RDCs). These

are mainly funded by statutory levies on commodity production and eligible R&D matched by the government up to 0.5 percent of each industry's gross value of production.

The [White Paper on Agricultural Competitiveness](#) provides the agriculture sector access to the most advanced technologies and practices by investing: A\$100 million to extend the Rural R&D for Profit Program to 2021–22; A\$50 million to boost emergency pest and disease eradication capability; A\$50 million for better tools and control methods against pest animals and weeds; A\$1.4 million to match industry levies and contributions in the export fodder and tea tree oil industries; and A\$1.2 million to the Rural Industries Research and Development Corporation.

Labor Skills

The government has announced programs aims to help farmers access skilled and reliable labor by focusing on better training through the A\$664 million [Industry Skills Fund](#) and making visa programs more flexible such as expanding the [Seasonal Worker Program](#) to all agricultural industries and removing the annual cap. The Northern Australia [White Paper](#) outlined measures to encourage capital and worker inflows into the region through regulatory and immigration reforms – such as ten-year visas for skilled workers from countries such as China.

Biosecurity

The [Department of Agriculture](#) has primary responsibility for managing Australia's biosecurity system. The Department is moving to a risk-based approach to biosecurity operations, with resources focused on the risks of greatest biosecurity concern. The [biosecurity system](#) aims to reduce delays for industry and cut the costs for clients who actively and conscientiously take account of biosecurity risks.

The [White Paper on Agricultural Competitiveness](#) makes a broad commitment of A\$200 million to boost biosecurity 'surveillance and analysis' nationally. It finds that Northern Australia is a biosecurity risk 'hot spot' which faces 'different risks from other parts of Australia due to its proximity to other countries and its tropical environment, which is more receptive to certain pests, diseases and weeds.'

Market Access

The [White Paper on Agricultural Competitiveness](#) announced measures to improve access to 'premium' export markets including A\$31 million to break down technical barriers to trade and appoint five new overseas Agriculture Counsellors; as well as A\$12 million to modernize Australia's food export traceability systems to enhance food safety. The [National Farmers Federation](#) welcomed the measure as the counsellors can help overcome barriers for industries such as horticulture, rice and pork. [Minister for Agriculture](#) Joyce said the funding would help producers realise the opportunities and benefits of free trade agreements (FTAs) recently finalised with three of Australia's largest agricultural trading partners, China, Japan and the Republic of Korea.

Tax Policy

The White Paper contains a range of measures designed to help farmers improve their financial position, become more profitable and be more able to weather difficult seasonal events like droughts. From July 2016, farmers will be able to use the [Farm Management Deposits Scheme](#) (FMDs) to offset their business loans, thereby reducing interest costs. Farmers will be able to double their FMDs to A\$800,000 from the middle of 2016 and will be able to access their FMDs as needed (in drought, for example) without losing tax concessions. Farmers will also be able to opt back in to income tax averaging after ten years, from July 2016.

The [White Paper on Agricultural Competitiveness](#) and the 2015 Budget will enable banks to allow farmers to use FMDs as a business loan offset, reducing interest costs estimated at up to A\$150 million a year from 1 July 2016. In addition, farmers will be able to opt back into income tax averaging after 10 years, from 1 July 2016; will be able to double their Farm Management Deposits to A\$800,000, from 1 July 2016; will receive an immediate [tax deduction for fencing](#) and the cost of new water infrastructure; and can accelerate three-year depreciation of capital expenditure on fodder assets.

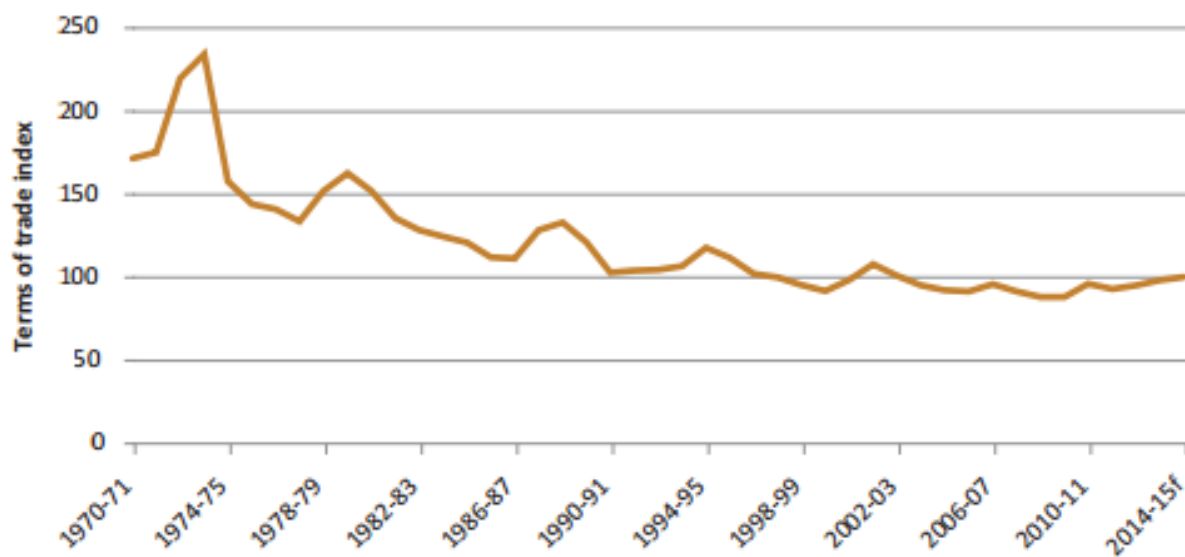
Foreign Investment in Agriculture

The [White Paper on Agricultural Competitiveness](#) welcomes foreign investment in agriculture 'where it is not contrary to Australia's national interest'. Reflecting this, the government has changed the Foreign Investment Review Board [guidelines](#) for foreign investment in rural land and agribusiness, while also introducing a foreign investor register for agricultural land. All foreign government investors must receive foreign investment approval before acquiring any interest in rural land, regardless of the value. From 1 March 2015, privately-owned foreign investors must get prior approval for a proposed acquisition of an interest in [rural land](#) with the cumulative value of A\$15 million.

Consistent with Australia's [free trade agreement](#) commitments, the cumulative A\$15 million threshold will apply to all privately-owned foreign investors except those from the United States, New Zealand, Chile, Singapore and Thailand. Investors from the United States will require prior approval if acquiring a [substantial interest](#) in a primary production business valued above A\$1,094 million. The Australian government has also announced that from 1 July 2015, foreign persons and foreign government investors holding interests in agricultural land must register with [agricultural land register](#), regardless of value of the land. This requirement includes land owned by U.S. citizens and companies.

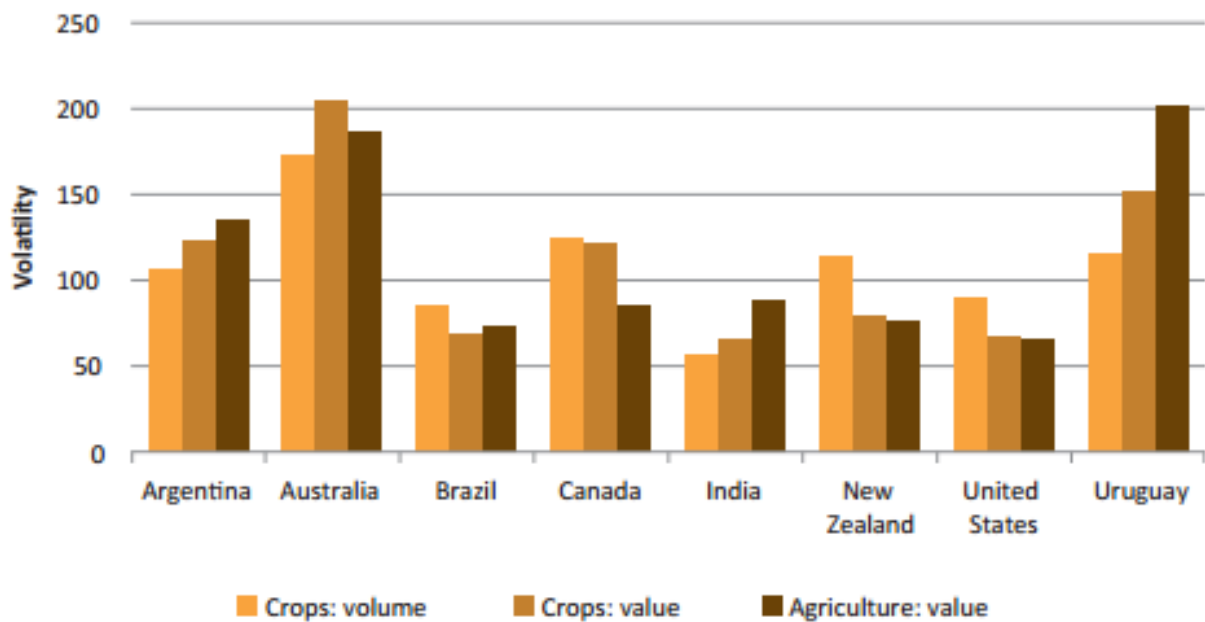
An interest in [rural land](#) includes buying agricultural land, obtaining or agreeing to enter into a lease or licence over agricultural land where the term, including any option periods, is likely to exceed five years, financing or profit sharing arrangements. It includes interests acquired directly or indirectly (for example acquiring a substantial interest in a corporation or trust where over half of the assets of the corporate or trust is [rural land](#)).

Figure 1: Terms of Trade for Australian Farmers, 1970 to 2015



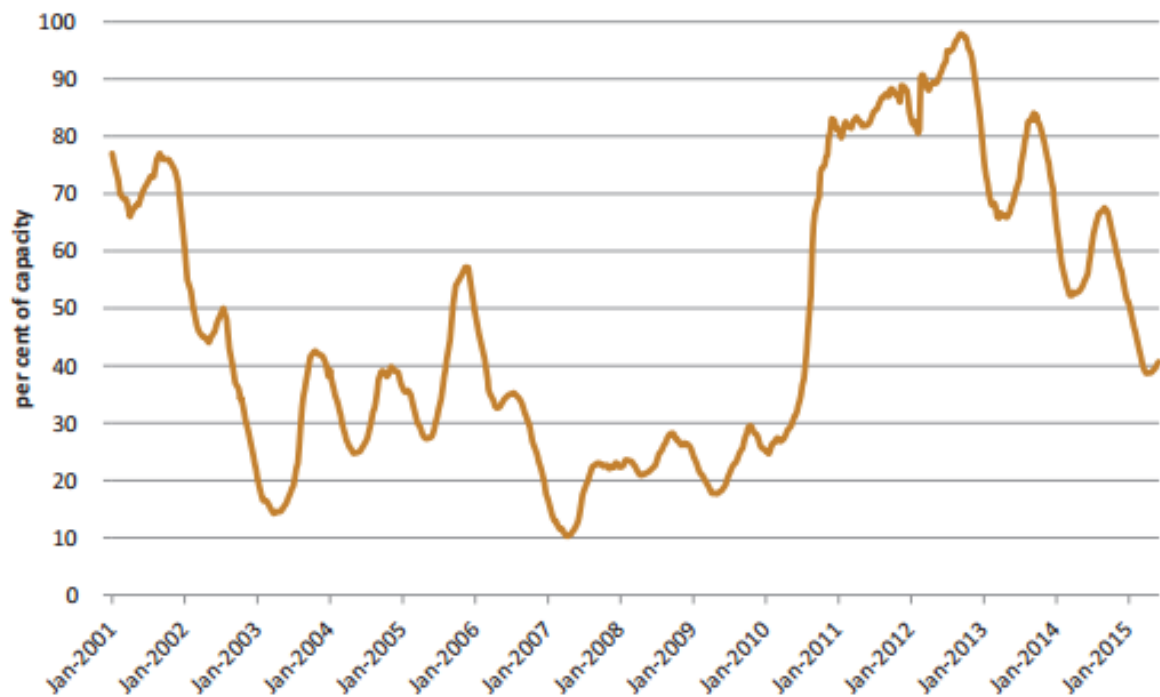
Source: White Paper on Agricultural Competitiveness (2015).

Figure 2: Volatility of agricultural output by country, 1961-2009



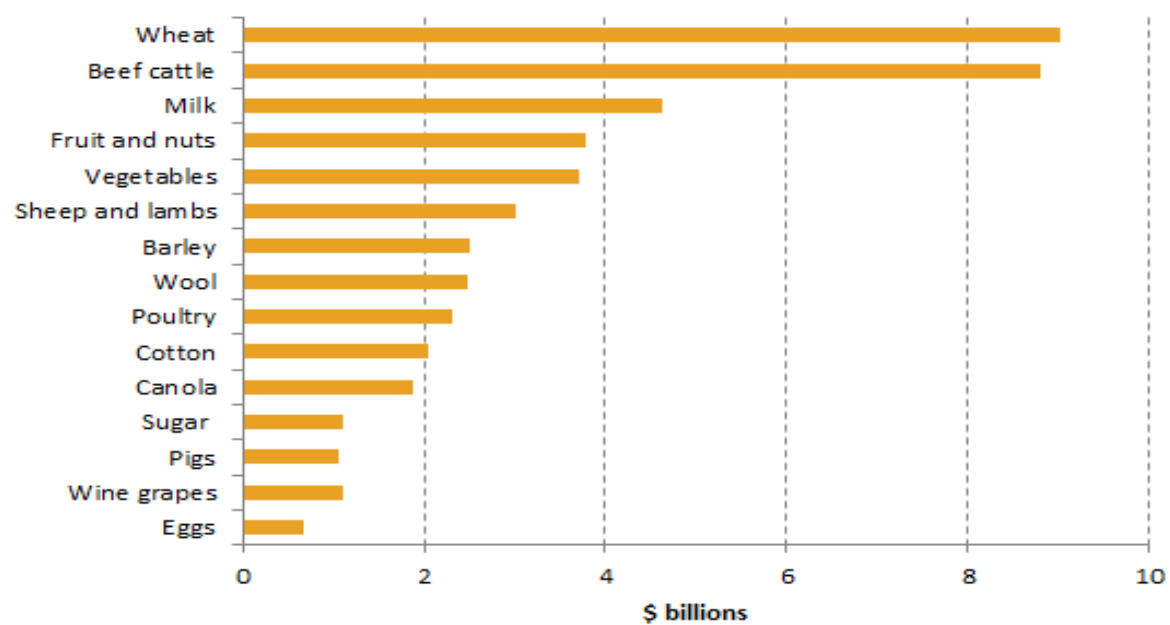
Source: White Paper on Agricultural Competitiveness (2015).

Figure 3: Water storages in the Murray-Darling Basin (Victoria, NSW and Queensland)



Source: White Paper on Agricultural Competitiveness (2015).

Figure 4: Value of Australian farm production, 2013–14



Source: Green Paper on Agricultural Competitiveness (2014).

Summary of new White Paper initiatives

A fairer go for farm businesses

Initiative	What will it deliver for farmers
Fairer competition for farm produce	
\$11.4 million over four years to boost Australian Competition and Consumer Commission (ACCC) engagement with the agriculture sector including a new commissioner dedicated to agriculture	A more farm-savvy and proactive ACCC will help encourage fair-trading and improved competition in agricultural supply chains and ensure issues are dealt with swiftly.
\$13.8 million for a two-year pilot programme to provide farmers with knowledge and materials on cooperatives, collective bargaining and innovative business models	Farmers will have access to information to assist them to establish alternative business models (including cooperatives) and with their contract negotiations.
Better regulation	
\$20.4 million to further streamline the approval of agricultural and veterinary chemicals	Farmers will get access to new farm chemicals more quickly than in the past, thereby reducing the cost of doing business.
Productivity Commission inquiries into reducing regulation in Australian agriculture and in the marine fisheries and aquaculture industries	Reduced regulation at all levels of government will reduce costs and let farmers and fishers get on with their business.
Improved Country of Origin Labelling	Improved country of origin labelling information will give consumers clearer information on the origin of their food.
A better tax system for farm businesses	
Allowing farmers to opt back into income tax averaging	Farmers who have opted out of income tax averaging will be able to re-enter the system after 10 years.
Increase the deposit limit for Farm Management Deposits (FMDs) to \$800,000	Farmers will be able to invest up to \$800,000 in FMDs.
Allowing FMD accounts to be used as a farm business loan offset	Banks can allow farmers to use FMDs as a loan offset reducing their interest costs.
A more simplified accelerated depreciation regime for fencing (at a cost of \$56 million)	From 7.30pm (AEST) 12 May 2015 farmers were able to immediately deduct the cost of new fencing in the year of purchase.

Building the infrastructure of the 21st Century

Initiative	What will it deliver for farmers
\$500 million for developing the nation's water infrastructure	Farmers will have greater certainty around future water security and new opportunities to develop agriculture, including in northern Australia.
\$1 million for improvements to the CSIRO's TRAnsport Network Strategic Investment Tool (TRANSIT) to support future Government infrastructure investment	Farmers will see reduced transport costs from fixing road and rail inefficiencies including bottlenecks and pinch points.

Strengthening our approach to drought and risk management

Initiative	What will it deliver for farmers
Preparing for drought	
\$3.3 million for improved seasonal forecasting	Farmers will have more accurate, more local and more frequent seasonal forecasts to assist with making decisions.
Immediate tax deduction for new water facilities and depreciation of capital expenditure on fodder storage assets over three years (at a cost of \$86 million)	<p>Water is key to farming. From 7.30pm (AEST) 12 May 2015 farmers were able to immediately deduct the cost of new water facilities.</p> <p>Having feed on hand for livestock during a drought is vital. From 7.30pm (AEST) 12 May 2015 farmers were able to depreciate new fodder storage assets over three years.</p>
\$29.9 million over four years for farm insurance advice and risk assessment grants	Farmers will be able to access a grant to help evaluate insurance options and to obtain risk management advice. Insurance can give farmers the confidence to make profitable decisions.
In-drought support	
Up to \$250 million a year in drought concessional loans for 11 years	We will always stand by farmers in drought. Drought and drought recovery concessional loans will be available in 2015–16, with a new drought concessional loan product available for 10 years from 2016–17.
\$22.8 million for increasing case management and the activity supplement for recipients in the third year of payment for the Farm Household Allowance	Farmers and their partners receiving the Farm Household Allowance will be assisted in decisions about their next steps.