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Budget Impact on Australian Agriculture 2014

Report Categories:

Agriculture in the Economy

Agriculture in the News

Agricultural Situation

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Report Highlights:

The Coalition government's first Budget for 2014-15 maintained most funding for agriculture to 'strengthen the sector and drive farm gate profitability.' There was a change in funding for R&D, support for a stronger biosecurity system and a comprehensive drought support package. The Government will also provide A\$320 million over 4 years to support farmers affected by drought. There is \$A100 million in funding for applied R&D, but cuts have been made to other research agencies. Subsidies for the ethanol industry were reduced but customs tariffs retained on imported ethanol. Infrastructure projects will benefit rural and regional areas and industries.

Overview

The Coalition government's first [Budget](#) for 2014-15¹ contained policy changes and expenditure cuts which affect the agricultural sector and this report will consider the extent of changes. Overall, a 'budget repair levy' and welfare cuts were introduced to reduce the forecast deficit for the government from A\$50 billion in 2013-14 (1.8% of GDP) to A\$3 billion by 2017-18. Total federal government outlays will fall by 1.7% each year to 2017 in order to reduce the government deficit. Infrastructure spending of A\$50 billion by 2019-20 is expected to provide economic stimulus and will be funded from asset sales and a higher petrol excise tax. Some Budget measures will require legislation amendments to pass through the Parliament.

Agriculture Minister Joyce, the deputy leader of the Nationals Party which represents rural electorates, [said](#) the Budget provided a positive set of measures for the agricultural sector. He pointed to an increase in funding for agricultural R&D, a stronger biosecurity system, better access to farm chemicals and a comprehensive drought support package. There is also new Budget funding of A\$100 million for applied R&D, A\$15 million for small exporters, A\$20 million to build a stronger biosecurity and quarantine system and A\$8 million to improve access to agricultural and veterinary chemicals.

The Government will also provide a [package of measures](#) to support farmers affected by drought. Agriculture will also benefit from an infrastructure program, including improved highways, better port access and the expected construction of new dams, subject to a review. Other areas of the agricultural Budget are being reduced, such as funding for the Commonwealth Scientific and Industrial Organization (CSIRO) and Landcare. The Minister [said](#) government would continue to "strengthen the sector and drive farm gate profitability" under its programs for the sector despite the overall economic policy emphasis of the Coalition government on Budget austerity.

¹ Note that the Australian financial year runs from July to June.

Drought Assistance

The Government will provide A\$320 million over 4 years from 2014-15 as part of a [package of measures](#) to support farmers affected by drought in addition to existing provisions for adverse climactic conditions. These measures had been previously announced by the Minister for Agriculture in February 2014 to support farm businesses, farm families and rural communities facing hardship brought on by drought and include:

- Drought Concessional Loans of A\$280 million available to help farm businesses to recover from the effects of drought;
- More generous criteria for accessing income support measures;
- Water infrastructure schemes for drought affected farms (A\$12 million); and
- Pest management in drought affected areas (A\$10 million).

The Farm Household Allowance starts on July 1 2014 to provide eligible farmers with income support for essential household expenses. It is an uncapped, demand-driven program, with no limit to the number of possible recipients. In addition, up to A\$12 million has been allocated to assist drought affected farms in NSW and Queensland to access water; A\$10 million has been provided to assist with pest management in drought affected areas; and up to A\$11 million to help increase access to social and mental health services in communities affected by the drought.

Chart 1: Australian government budget aggregates and major economic parameters

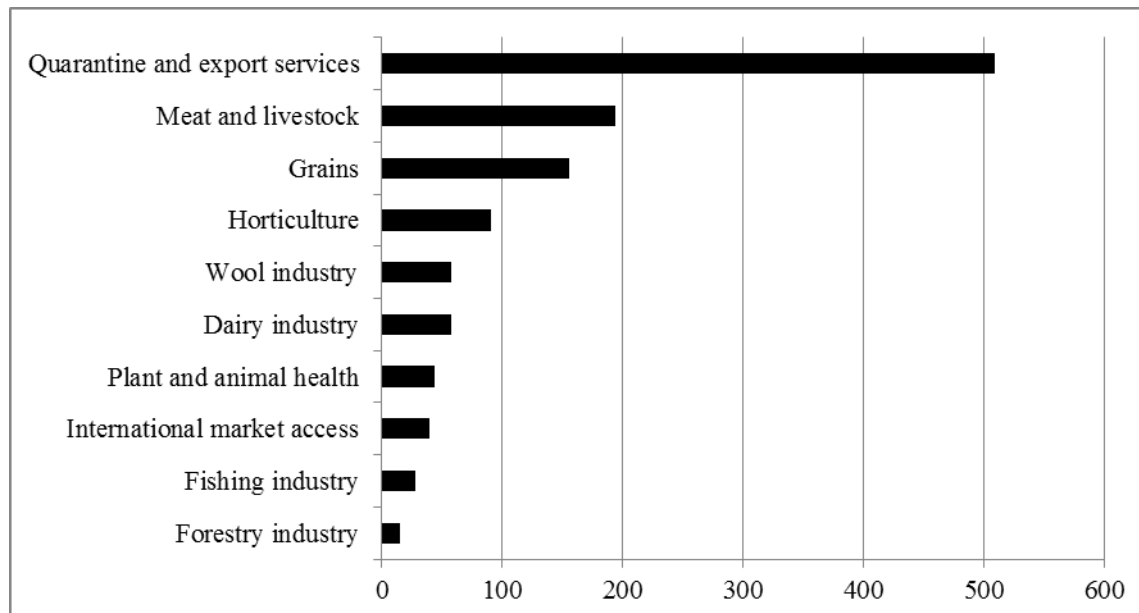
	Actual		2014-15	Estimates		Projections
	2012-13	2013-14		2015-16	2016-17	2017-18
Underlying cash balance (\$b)^(a)	-18.8	-49.9	-29.8	-17.1	-10.6	-2.8
Per cent of GDP	-1.2	-3.1	-1.8	-1.0	-0.6	-0.2
Fiscal balance (\$b)	-23.5	-45.1	-25.9	-12.2	-6.6	1.0
Per cent of GDP	-1.5	-2.8	-1.6	-0.7	-0.4	0.1

(a) Excludes net Future Fund earnings

			Forecasts	Projections		
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Real GDP	2.6	2 3/4	2 1/2	3	3 1/2	3 1/2
Employment	1.2	3/4	1 1/2	1 1/2	2 1/4	2
Unemployment rate	5.6	6	6 1/4	6 1/4	6	5 3/4
Consumer Price Index	2.4	3 1/4	2 1/4	2 1/2	2 1/2	2 1/2
Nominal GDP	2.5	4	3	4 3/4	5	5

Source: Australian government Budget papers, 2014-15. See [link](#)

Chart 2: Australian budget allocations to agriculture, 2014-15 (A\$ million)



Source: Australian government Budget papers, 2014-15. See [link](#)

Research and Development

There are significant changes to research and development programs and funding of major research agencies. Agriculture Minister Joyce [announced](#) an additional A\$100 million in Budget allocations over 4 years to fund research in partnership with Rural Research and Development Corporations (RDCs). The rural RDCs are a partnership between government and industry in funding rural R&D, with industry investing through statutory levy collection and the government matching the levy funding up to statutory caps. The funding will be used to provide grants for projects of applied research for farmers. The program will require collaborative research between RDCs and research providers with a financial contribution from each. The 'Rural R&D for Profit Policy Initiative' will focus on research likely to increase the profitability of the sector.

At the same time, other rural [research programs](#) were reduced, with lower funding to the Co-operative Research Centres (CRCs) and the CSIRO will lose A\$116 million in funding over 4 years and over 500 positions. Further, the industry-specific RDCs will have to pay Australia's membership to their respective international commodity organisations (for cotton, wine, sugar, fisheries and grains). There will also be a 4% reduction in the number of Department of Agriculture employees, or 232 people, as part of general reductions in the federal bureaucracy.

Biosecurity and Quarantine

The Budget provides for full cost recovery for biosecurity services for import and live animal exports. In addition, it allocates A\$20 million over 4 years to strengthen Australia's biosecurity and quarantine arrangements by providing additional resources to address pest and disease incursions. Agriculture Minister Joyce also announced a [Biosecurity Portal](#) to allow plant health experts across government, industry and the community to readily access information on surveillance, diagnostics, training, technical information, tools, national policies and strategies and legislation. Data will be standardized and the Portal will be overseen by the Department of Agriculture and Plant Health Australia, the national coordinator of the government-industry partnership for plant biosecurity in Australia.

Export programs

The Export Finance and Insurance Corporation will receive A\$200 million in capital to help small and medium-sized business wanting to increase their exports. Agriculture Minister Joyce also [announced](#) that Budget funding will be provided in 2014-15 to provide eligible small exporters in agriculture and other sectors with a rebate of 50% of their export certification registration costs, up to a maximum of A\$5,000. From 2015-16, funding will be provided for projects that directly benefit small eligible small-scale meat, dairy, fish, horticulture and grain exporters, particularly for projects to improve market access.

In addition, export sectors will work with the Department of Agriculture to review the export certification fees and charges, through existing Government-industry consultative committees. The inquiry will examine the impact of fees and charges for new or small exporters. A new schedule of fees and charges is expected to be introduced in 2015. The government is also ending the Live Animal Exports (Improved Animal Welfare Program) one year early, saving A\$2.3 million in 2014-15. The program was originally allocated A\$10 million over 4 years from 2011 by the previous government. It was viewed as aid funding, aiming at improving animal welfare in eligible countries that import Australian livestock.

Agricultural Chemicals Deregulation

The government will provide A\$8 million over 4 years to improve access to and registration of agricultural and veterinary chemicals. The initiative follows industry concerns over the regulatory burden on applicants, approval holders and registrants under the current registration system. The Department of Agriculture will [review existing regulation](#) with the Australian Pesticides and Veterinary Medicines Authority (APVMA), grower groups and Rural Research and Development Corporations.

The Agricultural and Veterinary Chemicals Legislation (Removing Re-approval and Re-registration) Amendment [Bill](#) has been introduced into Parliament to give effect to this deregulatory commitment. The Bill was introduced into the House of Representatives on March 19 2014. It aims to provide for less frequent registration renewal and to improve the APVMA's ability to secure information about the

safety of chemicals supplied in the market to improve health and safety and compliance. A [consultation paper](#) about the Bill was released to the public and industry stakeholders in March 2014.

The government considers that the small size of the Australian market can make the process of registering agricultural and veterinary chemicals uncommercial. It aims to deliver administrative or legislative reforms that can reduce barriers or improve incentives for chemical companies to register new products. The agricultural and veterinary chemicals industry has strongly supported the proposed deregulation changes.

Fuel Excise

The current frozen excise duty on all fuels (except aviation fuels) in Australia was abolished in the Budget, with the government re-introducing biannual indexation following the CPI of excise and excise equivalent customs duty from August 1 2014. An expected A\$2.2 billion in net revenue will be applied to additional road infrastructure projects but the off-road diesel fuel rebate for the agricultural and mining sectors will continue to apply. Under the scheme, farmers and mining companies receive a rebate on excise of around 38 cents a liter for diesel used off-road, which effectively negates the change to excise arrangements for off-road agricultural transport activities.

Ethanol and Biofuels Policy

The Budget provides that the Ethanol Production Grants program will end from July 2015, with projected net savings of A\$120 million over the next 4 years. Currently, domestic ethanol and petrol are both subject to excise of 38.143 cents per liter. However, the excise on ethanol is offset by paying ethanol producers a production subsidy of 38.143 cents per liter. The subsidy reduces the cost of production and supports ethanol production. Imported ethanol is subject to a customs duty of 38.143 cents per liter. Unlike the excise on domestic ethanol, the customs duty on imports is not offset and imported ethanol is subject to the full customs duty. Currently the United States is the largest exporter of ethanol to the Australian market. Customs duty on U.S.-sourced ethanol is not exempt from customs duty under the provisions of the Australia-United States Free Trade Agreement (AUSFTA).

Under the policy change, the fuel excise on domestically-produced ethanol will stay at zero for 2014-15, but an excise of 2.5 cents per liter will apply from July 2016 until it reaches 12.5 cents a liter in 2021. The measure will raise A\$16 million over 4 years. Imports of ethanol will still be subject to a customs duty of 38.143 cents per liter but their relative competitiveness is likely to increase. The Budget decision to phase down the ethanol excise reflects the conclusions of a Bureau of Resources and Energy Economics (BREE) [report](#) of February 2014. This found that the ethanol subsidy had failed to expand the industry or the use of ethanol in fuel and was of little benefit to the environment or farmers.

Table 1: Summary of the Ethanol Production Grants (EPG) program, 2012-13 and BREE estimate of the costs and benefits of the program

Indicator	Impact of Ethanol Production Grants (EPG) program
Production	284 million liters
EPG payments	A\$ 108 million
Greenhouse gas abatement	Net impact of an estimated 0.39 million tonnes of CO ₂ abated at an effective cost of A\$274 per tonne of CO ₂

Source: BREE (2014), *An assessment of key costs and benefits associated with the Ethanol Production Grants program*, A Report for the Department of Industry, February. See [link](#)

The Howard government had established the Ethanol Production Grants program in 2002 under which local producers received a full rebate on excise payments, making it effectively excise free. In 2012-13 Australian-produced ethanol supplied around 1% of the total road transport fuel market in Australia. Currently, the predominant petrol-ethanol blend (E10) is largely sold in New South Wales (NSW) and Queensland and accounted for around 14% of total petrol sales in 2012-13. There are three Australian ethanol producers; Manildra, based in Nowra, NSW, produces about 70% of local ethanol. The other two are the Dalby Bio Refinery in Queensland, operated by United Petroleum, and the Sarina Distillery in Queensland, run by Wilmar BioEthanol.

In addition, the government plans to save A\$156 million over the next 4 years through a range of changes to the taxation of biodiesel. The main savings will be made through cuts to the Cleaner Fuels Grant Scheme, which will be abolished. An A\$ million program focused on harnessing the power of algal synthesis and biofuels will also be abolished as alternative fuels, including advanced biofuels, will be considered in the context of the 2014 Energy White Paper.

Green Army and Landcare

The government has committed to create a 'Green Army' to assist with rural-related projects for the environment. The program begins in July 2014 and will build up to a 15,000-strong workforce by 2018. Young people aged 17-24 years will be paid an allowance for six months, with around 750 projects currently listed under the program. These include cleaning up riverbanks and creek beds, revegetating sand dunes, managing weeds and pests, and protecting local heritage sites.

Environment Minister Greg Hunt [said](#) "The Green Army will provide opportunities for young people across Australia to gain valuable training and experience in environmental and heritage conservation fields and explore careers in conservation management." The scheme will be run by 'qualified service providers', and will be funded with A\$525 million over 4 years.

At the same time, the National [Landcare Program](#) will lose A\$483 million of its funding over 5 years, but will still receive A\$1 billion in funding. Most Landcare cuts will be to the competitive grants rounds, where small community Landcare groups apply to run grassroots projects. Landcare will also fund several new programs, including cane toad eradication in Western Australia's Kimberley region, A\$9

million of fishing programs and a strategy to protect the Great Barrier Reef and the A\$40 million Reef 2050 plan. It is not yet clear how Landcare groups and the Green Army will work together.

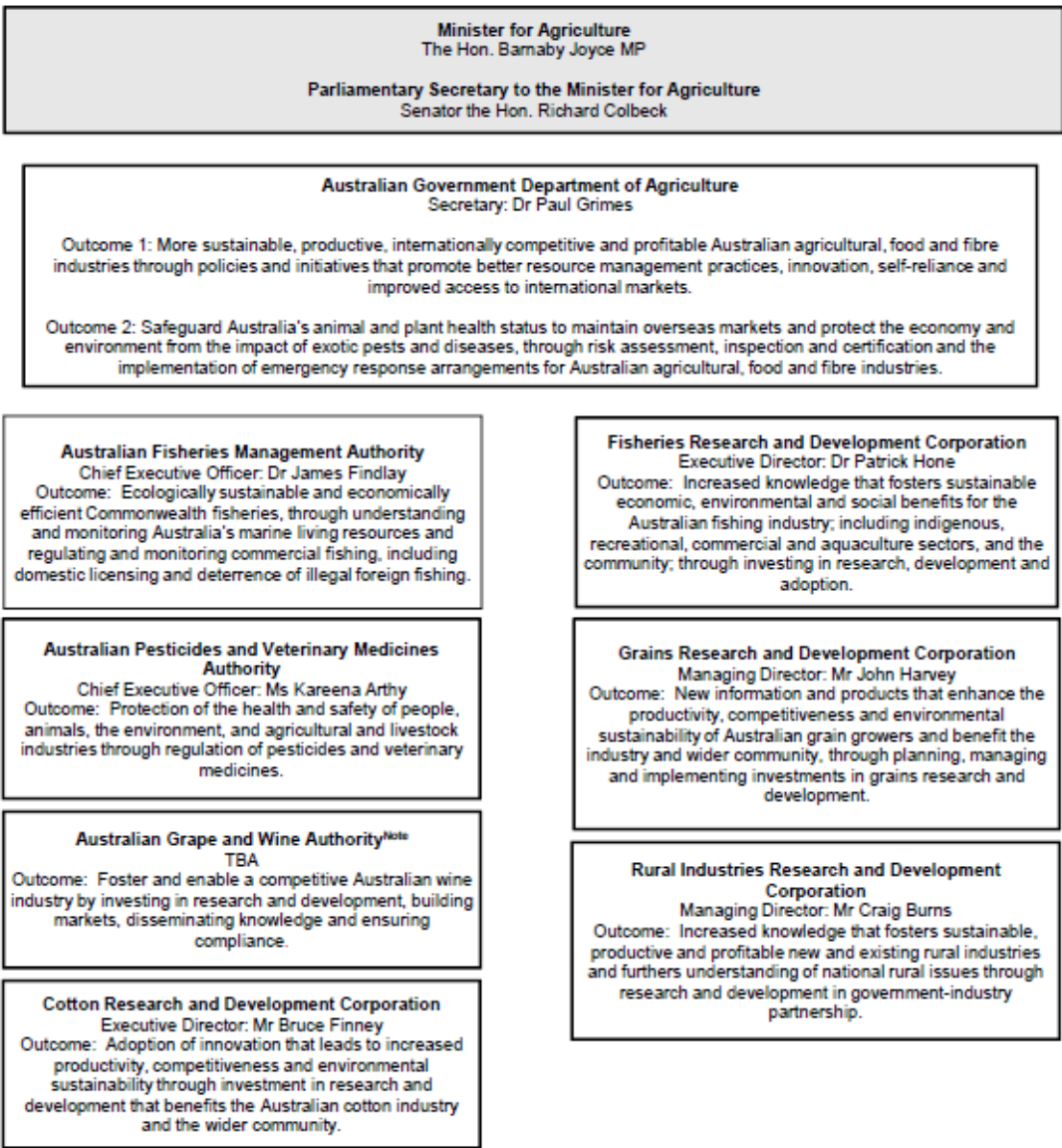
Protection against Supermarket Power

Agriculture Minister Joyce has indicated that many farmers and food processors have been affected by the significant power of supermarkets in Australia, with the two major chains (Woolworths and Coles) controlling around 50% of retail sales. The Budget offers A\$1.4 million to extend unfair contracts provisions to small businesses, which is aimed at stopping the inclusion of unfair terms and conditions in standard contracts.

Chart 2: Major Australian Government Programs for the Agricultural Sector, 2014-15

Portfolio Overview

Figure 1: Agriculture Portfolio Structure and Outcomes



Note: The Grape and Wine Research and Development Corporation and Wine Australia Corporation will merge to form a new statutory marketing authority, the Australian Grape and Wine Authority (AGWA), to commence on 1 July 2014. An interim outcome statement is included in this document. A new outcome statement will be developed by the AGWA board once it is in place.

Source: Australian government Budget papers, 2014-15. See [link](#)