



Australia Agriculture Policy Review



One in a series of policy notes on countries of interest to Canada. This note draws on analysis from several institutions, listed on page 6.

Overview

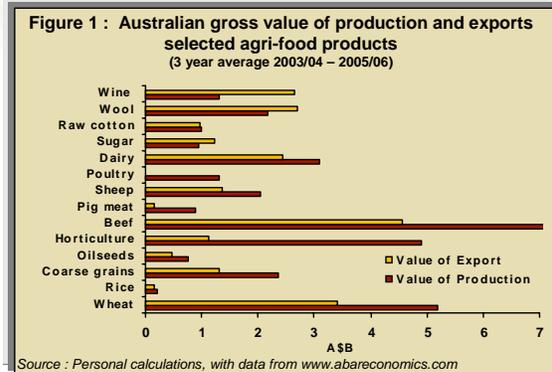
Australia is a significant player in world trade for several commodities and agriculture is a vital part of the Australian economy.



Source: www.abareconomics.com

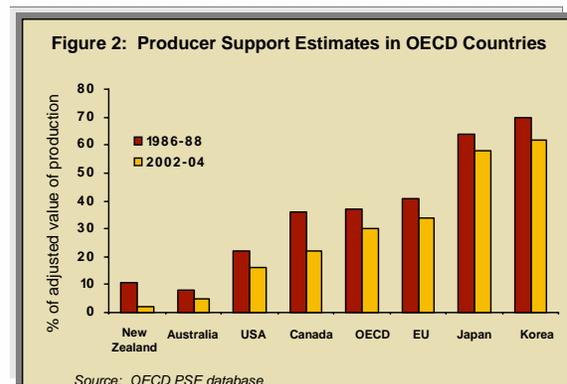
Around 60% of Australia is devoted to agriculture, with three broad zones in which agricultural activity occurs, as illustrated in the map above. These are referred to as the pastoral, wheat-sheep, and high rainfall zones. Australia had only about 130,000 commercial farms in 2005, so average farm size is high.

Australia's agriculture is market driven and export-oriented. Figure 1 shows the importance of exports for most major agricultural commodities produced. For some products, aggregations for values of production and for export values are not directly comparable because export values reflect the value of more highly processed products such as sugar and wine. Overall, about 65% of agricultural production is exported, representing about 25% of total merchandise exports. The processed agri-food products share of total merchandise exports has doubled since 1986-88.



Between 1986-88 and 2002-04, the support to producers in Australia decreased from 8% to 4% of the total value of agricultural production as shown in Figure 2. Australia has the second lowest level of producer support across OECD members.

Productivity has grown at an average annual rate of 2.8% for the past 3 decades (Dolman et al, 2005).



Risk Management and Adjustment Policies

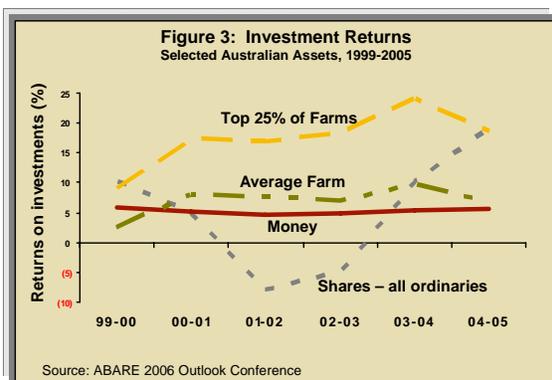
The Evolution of Risk Management Programs

In the late 1970s and early 1980s, Australia had modest risk management programs. They also operated supply management type schemes in their dairy industry, and buffer stock and reserve price schemes in their wool industry.

In the late 1980s, Australia adopted a more market-oriented policy rather than matching increases in support elsewhere. Australia's choice was influenced by New Zealand's experience earlier in the decade, advice from Australia's transparency institutions, Australia's export dependency, and Australian experience with the Wool Corporation and the Western Australian Lamb Marketing Scheme.

Since then, Australia has reduced government's main role in the agriculture and food sector. Australia targets international competitiveness, and minimizes policy interventions and regulation, and takes a disciplined approach to helping individuals and communities through short-term difficulties.

Time-limited household support is provided to farmers in difficulty, along with access to professional advice and, when appropriate, grants for farmers to re-establish outside agriculture. Australia's sustained emphasis on market-oriented programs, skill development, management, financial planning and commercial responsibility seem to have paid dividends as returns to agriculture compare well with other investments as shown in Figure 3.



Drought and "Exceptional Circumstances"

Australia has a National Drought Policy based on principles of personal self-reliance and risk management. The Exceptional Circumstances (EC) policy is designed to operate in association with the National Drought Policy and the Rural Adjustment Scheme. Exceptional Circumstances:

- 1) must be rare and occur no more than once every 20 to 25 years on average;
- 2) must result in a rare and severe downturn in farm income over a prolonged period (> 12 months);
- 3) cannot be planned for, or managed, as part of farmers' normal risk management strategies; and
- 4) must be a discrete event that is not part of long-term structural adjustment.

Exceptional Circumstances (EC) declarations are based upon assessment of six core criteria: meteorological conditions; agronomic and stock conditions; water supplies; environmental impacts; farm income levels; and scale of the event. EC are declared when the combined impact on farmers of these core criteria constituted a rare and severe occurrence. Meteorological conditions provide the threshold or primary condition.

EC assistance has become the main vehicle for providing assistance to farmers in a region or industry that is experiencing a severe downturn due to a rare and severe event. EC assistance ensures that viable farmers are not forced to leave the land due to events that are beyond the scope of normal risk management. Assistance is available in the form of EC Relief Payments and EC Interest Rate Subsidies. EC Interest Rate Subsidies are available to eligible producers in EC-declared areas. Sums of up to \$100,000 per year are available at a rate of 50% of the interest payable on loans for the first year of an EC-declaration, and up to 80% in later years.

Severe drought tests the will of policy makers to hold to these policy lines as political pressure is often brought to bear to change policy settings. Due to the unprecedented severity, length and extent of the current drought, the Government recently increased the number of EC-

declared areas, extended the expiry dates for existing EC declarations and reintroduced some lapsed areas.

Discussions are now underway as to whether recent extreme droughts should be considered transient in nature or whether they should be considered as a new “state of the world” in light of climate change and other factors. If considered transient, then the government will continue support payments under EC criteria. If, however, more frequent and extreme droughts become considered as systemic and part of a new “equilibrium” in the face of climate change, then farmers and rural communities will eventually be left to survive on their own.

Agriculture Advancing Australia (AAA)

Launched in 1997, Agriculture Advancing Australia (AAA) is an integrated package of programs to help producers be more competitive, sustainable and profitable. Benefits include:

- 1) funding for business and natural resource management training and education;
- 2) support for industries undergoing change;
- 3) financial management tools;
- 4) financial information and referral;
- 5) funding for professional advice, skills development and training;
- 6) assistance for farm families in serious financial difficulty; and
- 7) improved access to markets.

Under the AAA umbrella, the Farm Management Deposits (FMD) scheme is a tax-linked, risk-management tool which allows producers to deal with variable income. The scheme allows producers to set aside taxable primary production income in profitable years, to be withdrawn in lower income periods. Farm management deposits provide tax benefits if kept for at least 12 months. Interest is earned at market rates on the deposit's full amount. Farm management deposits are offered through authorised deposit-taking institutions like banks, building societies and credit unions.

The Farm Help program also falls within the AAA umbrella. Its focus is on adjustment. Farm Help provides short-term assistance to families who are experiencing severe

financial difficulty, having difficulty meeting living expenses, and are unlikely to obtain a loan from a financial institution. The assistance helps farmers take action to improve their long-term financial prospects, either by improving the financial performance of their farm, finding alternative sources of off-farm income, or re-establishing outside of farming. Under the program, farmers are encouraged to use strategic information, undertake analysis and make decisions to improve their financial security. The program offers assistance up to \$55,000 per farm family. Support includes:

- 1) Income support for up to 12 months, subject to income and assets tests, to allow farmers time to make decisions about their future;
- 2) Advice and training grants up to the value of \$5,500 per farm family. The first advice session is compulsory and provides an assessment of the farm's financial situation; and
- 3) Re-establishment Grants of up to the value of \$50,000 are available to farmers who have decided to leave the farm, available after the farm is sold (subject to an assets test).

Recipients are required to undertake a financial assessment and develop a “Pathways Plan” to be eligible for income support or a re-establishment grant. The Pathways Plan is based on a financial assessment developed during the initial advice session, supplemented with the longer-term goals of the farm family. Each farmer develops a plan for their situation, with the help of a Centrelink Farm Help Officer. Since Farm Help's inception, longitudinal surveys have been conducted of participating families. Over 80 percent of farmers remaining on the farm indicated that they gained long-term benefits from it. They often made reference to the diagnostic nature and adjustments made in developing the mandatory Pathways Plan. A large number of farmers remaining on the farm subsequently sought out professional advice to supplement that obtained through the program.

For those who took Re-establishment Grants and left the farm, three-quarters agreed they were better off and that Farm Help helped them prepare for and adjust to

life off the farm. Participant satisfaction, program efficacy and transfer efficiency are all high. The program is focused and has clear objectives and eligibility criterion. Time and financial limits on support ensure that it does not foster on-going dependency. The program has well thought-out delivery vehicles, with follow-up support.

The Importance of Transparency Institutions

As noted above, Australia has the second lowest support levels in OECD, next to New Zealand. However, unlike New Zealand, it did not have to go through a traumatic adjustment period. This is, in part, due to the presence of its transparency institutions, the most noteworthy being the Productivity Commission (PC) and the Australian Bureau of Agricultural and Resource Economics (ABARE) and their predecessors. The PC's ongoing scrutiny and review of policies, programs and regulations ensure that support levels are kept relatively low. It also ensures that policies and programs are current, efficient and effective, and are difficult to capture by special interest groups.

The PC's predecessors were the Tariff Board (est. 1921) and the Industry Assistance Commission (est. 1973). Eventually the name and mandate evolved and were broadened to that of today's PC (established in 1998). The PC conducts public inquiries and research into a broad range of economic and social issues affecting the welfare of Australians: competition policy; productivity; the environment; economic infrastructure; labour markets; trade and assistance; and structural adjustment.

What makes the PC unusual, if not unique, among public sector institutions worldwide, is the combination of core principles which it embodies:

- *Independence.* The PC operates within the guidelines of its own legislation. It has an arm's length relationship with Government, which can tell it what to do but not what to say.
- *Transparency.* The PC's advice and the information that it generates are open to scrutiny.

- *A community-wide focus.* In providing advice, the Commission seeks to advance the interests of the community at large.

Recent agri-food reforms relating to the Australian Wheat Board (1999), Australia's dairy sector (2000), and its comprehensive "Stock Take" of the entire agricultural sector (2004-06) all involved the Commission.

The Forward Agenda

In 2004, the Minister for Agriculture, Fisheries and Forestry commissioned a high level stakeholder "Reference Group" to make recommendations regarding future directions for the agriculture and food sector. In February 2006, recommendations were tabled in four areas: *market and supply chain responsiveness; competitiveness; adapting to change; and natural resource governance.* The Reference Group considered the government's role to be an enabling one, aimed at securing the best environment for markets to operate. To the extent that Australia succeeds with its ongoing market-oriented reforms, it will become an even more formidable competitor.

Market and Supply Chain Responsiveness. In this area, Australia has chosen to focus on: prioritizing advocacy efforts (by issue, by market) in multilateral trade talks; sharpening its focus on key market access issues; developing anticipatory strategies for emerging technical trade barriers; continuing domestic reform; and remaining at the forefront of international advocacy for trade liberalization. On the domestic front, Australia will concurrently develop competition regulation and enforcement with a view to fostering a more cohesive, consumer-driven domestic value chain, where all participants recognize their mutual dependency.

Competitiveness. There is widespread recognition that future competitiveness of the agri-food sector depends on efficient sector collaboration. Existing collaborative funding and arrangements for research (check-offs and government support) will be maintained and, in some cases, augmented. More resources will be deployed to ensure complementarity between research and extension efforts and to promote innovation

throughout the value chain. To better establish priorities and discriminate among policies and programs, greater effort will be made to improve data collection, financial reporting, and the calculation of on returns on investment relating to funding allocations and *ex post* results.

Adapting to Change. Australia will continue to meet adjustment problems of farmers, firms and communities with a consistent, time-limited approach to government assistance. Emphasis will be placed on education, management skills and self-reliance, and improving capacities to respond to market incentives.

Natural Resource Governance. As much of Australia's land mass is managed by farmers, farmers are viewed as the frontline stewards of natural resources. Resource management issues are considered pre-eminent among future policy challenges. There is an emerging consensus among farmer associations, governments, and environmental groups that market-based instruments are essential to progress with respect to the responsible management of water resources, biodiversity and ecosystems.

Conclusion

Australian agriculture is market driven and export oriented. Australian agriculture continues to be responsive to market signals and consumer preferences and has leveraged this to realize positive gains.

This responsiveness arises in part because of renewal and adjustment programs which have emphasized technical and financial diagnostic tools, personal choice, responsibility and management skills. Surveys suggest that participant satisfaction, program efficacy and transfer efficiency are all high.

The importance of Australia's transparency institutions in assessing efficiency and competitive performance can not be underestimated. These institutions scrutinize and publicly report on the behaviour of both public and private entities as well as trading partners and competitors. They have played a critical role in identifying which actions, policies and regulations are counter to general well-being. They have been instrumental in identifying what governments and industry do and have played a critical role in identifying what they should refrain from doing.

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October 2007

Project No. 07-048-b (Admin. XLI(1), pp.15-32)