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Report Highlights:

The China-Australia FTA is the main news story with Australia expected to gain significant new market access into China after the agreement's implementation in 2015. The major anticipated gains are highlighted. Further, Australia has seen wide-ranging government reviews of key policies that affect the agricultural sector. These include the Green Paper on Agricultural Competitiveness and reviews of Biosecurity, Competition Policy, Innovation and Water Infrastructure. This edition highlights some of the key issues involved in these reviews. It also provides an overview of recent developments in New Zealand agriculture.

We hope that you will enjoy this edition of the Southern Cross Agricultural Outlook. The entire FAS team in Australia and New Zealand has been working hard to create a vehicle that will provide a brief, practical and easy-to-read synopsis of current news and events affecting the agricultural sectors in Australia and New Zealand. Our goal is to provide you with an overview that gives you quick insight and news that you can use in a summary format. We also provide links to more detailed articles and GAIN reporting if you want to learn more about a particular story.

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We are always striving for continual improvement in our products and services. Your feedback will help us tremendously in those efforts, and so I encourage you to send us any suggestions or comments you may have. With your help, our goal is to make this publication an even more informative and interesting read.

Happy Reading!

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This report, Southern Cross Agricultural Outlook from Australia and New Zealand is a summary of issues of interest to the agricultural communities around the globe. The report includes information collected during travel within these two countries, reports in the local media, or offered by host country officials and agricultural analysts. Press articles are included and summarized in this report. Significant issues will be expanded upon in subsequent reports from this office. Minor grammatical changes have been made for clarification.

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AUSTRALIAN NEWS

Access for US plums agreed

Australia will open its domestic market to imports of California plums in 2015 following bilateral discussions in late 2014. This follows the opening of the market for U.S. peaches and nectarines in 2013. Total U.S. stone fruit exports to Australia could reach as high as US\$50 million in 2015.

Australian agricultural exports

Australian farm exports are expected to decline by 8.6 per cent in 2014–15 to about A\$38 billion, with a fall in the total volume of farm production of 6%. Higher export earnings from meat and live animals will be offset by declines for dairy, wool and other livestock. However a weaker Australian dollar in 2014–15 will help offset weaker world prices in US dollar terms for such commodities as grains, oilseeds, cotton, sugar and dairy products.” See: [link](#)

China-Australia FTA signed

After more than a decade and twenty rounds of negotiations, the China-Australia Free Trade Agreement (FTA) was signed on November 17, 2014. The agreement removes a range of barriers to trade in agriculture between the two countries, including beef, horticulture and dairy products, as well as other goods and services. Australian business and agricultural groups have welcomed this key FTA which is expected to remove 93 per cent of Chinese tariffs on agricultural exports by 2020.

Australian beef, horticulture and dairy appear to be the big gainers from the agreement, but horticulture, sheep meat, wine, and even processed foods will also benefit. On the other hand, Australian sugar, cotton, and rice were excluded from the agreement, as well as wheat and oilseeds. A summary of the agreement can be found on the website of DFAT at: <http://www.dfat.gov.au>

Major Access Gains

Australian farmers will benefit from a number of major changes in the agreement as follows: (1) the agreement will eliminate all dairy tariffs up to 20% over a 4 to 11 year period; (2) beef

tariffs ranging from 12-25% will be removed over 9 years; (3) wine tariffs (14-20%) will be removed over 4 years; and (4) horticultural tariffs up to 30%

will be removed over 4 years. Other measures are described below. For its part, Australia will remove tariffs on China’s agricultural exports, though tariffs on some products like canned fruit and peanuts will be phased out over 2 to 4 years. Australia will not change any of its quarantine rules, which have been criticized by Chinese exporters.

Dairy Access

The Australian Dairy Industry has welcomed the FTA and estimated that the removal of tariffs over 4 years would save the sector A\$630 million from 2016 to 2025. Fonterra Australia said the FTA was a “game-changer” especially for exports of higher valued dairy products. The agreement is expected to increase farm gate prices for milk and removes a 15% disadvantage relative to New Zealand exports into China gained from an earlier FTA in 2008.

Trade Minister Robb said while the ChAFTA is “certainly equivalent” to NZ deal, it was also better because “it will have nowhere near the potential to reinstate protections, if the market grows too quickly”. He acknowledged disappointment for grains; sugar and cotton that carried “great sensitivity” for the Chinese market, but stressed the two-stage deal would be reviewed in three years’ time providing an opportunity to renegotiate outcomes for those commodities, which was written into the agreement. [link](#)

WTO Access into China

China provides WTO access quotas on otherwise excluded commodities. Trade Minister Robb noted that 880,000 tonnes of Australian cotton was sold to China valued at A\$1.7 billion last year, as well as 870,000 tonnes of wheat valued at A\$283 million and 100,000 tonnes of sugar worth A\$48 million.

Beef exports to China

Australian beef exports into the Chinese market reached a new record of 153,000 tonnes in 2013 – up fourfold on 2012. Australia is the dominant supplier of Chinese beef imports, with a 57% market share and this market is expected to continue to grow rapidly in the future. Under the trade agreement, tariffs (currently 12-25%) on beef, sheep meat,

livestock, hides, skins and leather will be eliminated over a phased period of up to 9 years. China has retained a discretionary safeguard for beef imports from Australia at 170,000 tonnes. The Cattle Council has estimated that once fully implemented, the free trade agreement with China has the potential to boost the gross value of beef production by A\$270 million annually by 2024. It considers that out to 2030, the total benefits for beef could approach A\$3.3 billion.

Australia-South Korea FTA ratified

The early entry into force of KAFTA in 2014 means there will be two tariff cuts in rapid succession, the first on 12 December and a second on 1 January 2015. Australian beef exporters have a 40% tariff reduced to 34.7 per cent in January 2015. A 3% tariff on sugar will be eliminated in December 2014, strengthening Australia's position as the largest supplier to the Korean market. Eventually 98 per cent of Australia's agricultural exports will have zero tariffs once the rollout of the FTA is complete over a number of years. See: [link](#)

Fisheries

Australia's *Fishery status reports 2013–14*, make an assessment of the biological, economic and environmental status of 93 fish stocks across 21 fisheries. See: [here](#). Australia has released a National Plan of Action to deter and eliminate illegal, unreported and unregulated fishing.

Australia is one of the eleven members of the Regional Plan of Action (RPOA) to Promote Responsible Fishing Practices in South East Asia. Other nations include Brunei, Cambodia, PNG, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Timor-Leste and Vietnam. These represent 17% of global fisheries output and harvest 14 million tonnes of seafood each year valued at A\$11 billion. The report is available [here](#)

Green Paper

The Australian Government has released the *Agricultural Competitiveness Green Paper* and is asking for submissions by 12 December 2014. To read the Green Paper visit: [here](#). The FAS Australia GAIN report on the review is [here](#).

Illegal Timber Imports

New requirements for timber importers and processors to protect legitimate markets from illegally sourced timber products will be in place

from 30 November 2014. Information about the new regulations is at:

agriculture.gov.au/illegallogging

Water Infrastructure

Minister for Agriculture Barnaby Joyce pointed to a range of opportunities to build capacity in water infrastructure. He released the Options Paper from the Water Infrastructure Ministerial Working Group which identified 27 projects identified as a priority to progress. See [here](#). "We know water is wealth and stored water is a bank" he said. The issue of water infrastructure was also discussed in the Agricultural Competitiveness Green paper.

El Nino Outlook

The Bureau of Meteorology has upgraded its outlook for an El Nino, bringing dry conditions to eastern Australia in the next three months. There's now a 70% chance of an *El Nino* developing and it could last into late summer, or early autumn. The models are suggesting Australia could stay persistently at El Nino level into early 2015. See [link](#)

Forestry

Australia's 125 million hectares of forest covers about 16% of the continent and include native forests and industrial softwood plantations. *Australia's Forests at a glance 2014* is available [here](#). A new ABARES Forest and Wood Products report shows the value of wood product exports increased by 24% in 2013–14 to \$2.5 billion. Exports of woodchips grew by 26% to A\$768 million while roundwood exports reached a new high of 2.4 million cubic meters or A\$292 million. For the report, see [here](#).

Review of Biosecurity

Biosecurity policy is an important focus of the Green Paper which indicates that the Australian Government is committed to maintaining a science-based biosecurity system that allocates resources based on the level of risk, that facilitates the safe movement of animals, plants, people and cargo to and from Australia, and that conforms to international obligations.

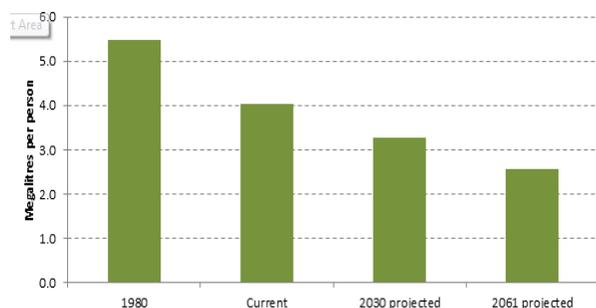
Australia is also reviewing biosecurity arrangements to protect the marine environment from invasive pests. The wild catch and aquaculture industries are worth A\$2.3 billion a year to the Australian economy. The Department of Agriculture has an issues paper [here](#).

Australian Water Policy

Australian water policy has increasingly stressed the need for higher market prices to reflect scarcity of this resource. In 2012, around 60% of the water used in Australia was used for agriculture with the output from irrigated land accounting for 30% of the gross value of agricultural production (Australian Bureau of Statistics, 2013).

Australia's water availability varies significantly by region, with 65% of run-off occurring in far north Australia and coastal Queensland and only 7% in the Murray Darling Basin (DAFF, 2012).

Chart 3 Australia's water infrastructure: less fresh water per capita from large dams



Notes: Data based on the capacity of large dams. 2030 and 2061 projections based on ABS Series C projection of a population of approximately 29 000 000 and 36 600 000 respectively. Projected megalitres per person assumes no addition to the current dam capacity. Source: Australian National Committee on Large Dam Inc. data and ABS 2013a; ABS population clock at 29 July 2013; and ABS 2013b

Source: *Green Paper (2014)*.

AUS Beef Exports to the US market

The market value of Australian beef and veal exports in the month of September reached a new record of A\$712 million FOB, up 42% from the same month in 2013. The highest valued beef export market for Australia in September remained the US. The export value to the US for the first 9 months reached A\$1.5 billion, over double the corresponding period in 2013 [link](#).

USDA World Forecasts for 2014-15

Global production of wheat for 2014/15 is down slightly, but still a record, as smaller crops in Australia, Egypt, and Kazakhstan are only partially offset by larger crops in the EU (mostly in Poland, Germany, Romania and Spain). Global trade is down on import cuts for China, Egypt, Pakistan, Russia, and South Korea. See: [link](#)

Corn

World corn production in 2014/15 remains a record and is nearly unchanged as smaller production in the United States and China more than offsets larger crop forecasts for the European Union, Ukraine, and Mexico. Global trade is down slightly as larger domestic feed grain supplies in the EU displace more corn imports. In addition, Chinese demand for feedstuffs is being met from barley and sorghum, reducing prospects for corn (and DDGS) imports. The U.S. season-average farm price is projected higher this month.

Cotton

World stocks are up marginally as slightly higher production and beginning stocks are partially offset by lower consumption. Total trade is unchanged. U.S. production and ending stocks are up and exports unchanged. The forecast mid-point of the season average U.S. farm price range is unchanged at 60 cents/pound.

NEW ZEALAND NEWS

NZ Dairy Industry Outlook

Fluctuating global dairy production has meant increased price volatility for New Zealand producers, although they have generally received higher milk price levels. World milk powder prices peaked in mid-2013 at around US\$5600 /tonne but since April 2014, prices fallen significantly due to increased production in key exporting countries such as the US, EU and New Zealand. Only 7 percent of global milk production (640 million tonnes) is traded each year and New Zealand supplies one-third of the export volume. [Dairy](#) New Zealand link

Over 2014, New Zealand's pasture growing conditions improved markedly and increased production by 10 percent for the year ending May 2014. However, production also increased in the US and EU and these extra supplies have put downward pressure on process for New Zealand producers. Further, the Russian ban on dairy imports from a range of countries has put further pressure on dairy prices. EU milk that would have produced cheese for Russia may be converted to another dairy product and consumed in a different market.

On December 10, Fonterra, the leading dairy cooperative, reduced its farm gate milk price for 2014/15 to \$4.70 a kg of milk solids from its previous forecast of \$5.30 a kg. The price is below last season's record payout from Fonterra of \$8.50 a kg but above the 10-year average for farmer returns.

South Korea and New Zealand concluded negotiations on a free trade agreement in November 2014. Raw log exports from NZ, the largest single export to Korea by value will have the 10% tariff reduced to zero over 10 years. The meat industry in NZ will have tariffs on beef reduced from 40% to zero over 15 years.

Milk powders from NZ will receive a small quota of 1,500 MT per annum at zero tariff while cheese exports from NZ will receive a quota of 7,000MT at zero tariff. First year tariff savings for NZ exporters will NZ\$65 million from a total of NZ \$229 million currently being paid. See: [link](#)

Beef Exports to the US market

Increasing US demand for New Zealand beef has strengthened domestic prices, which rose about 10 per cent over October to be over 20 per cent above the level a year ago. Beef exports increased by over 30 per cent in August with the United States accounting for almost half of the total. The historic rundown in the size of the US beef herd is a key reason for stronger prices; especially as herd re-building is now the main priority for the US industry.

[New Zealand-South Korea FTA signed](#)