

Agricultural policy reform and industry adjustment

Some recent experiences in Australia

by

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Introduction

This paper is a summary of progress on a study of Australian agricultural adjustment policies that have been used to manage the impact of trade policy reforms. The aim of the project is to describe the principles of government assistance programs that facilitate structural adjustment and encourage the development of competitive industries. It will evaluate how Australia has handled agricultural industry adjustment in a range of circumstances.

The study is focused on industry specific policy responses for two reasons. First, in many countries WTO trade policy reforms create adjustment pressures of varying magnitudes across different industries. Political pressures for government intervention to manage the adjustment effects generally focus on requests for an industry wide response.

Second, there has been substantial policy reform in Australian agriculture over the past 10-15 years. Many reforms have related to changes in trade policy and led to industry requests for assistance. Industry adjustment programs have been implemented in a number of cases. Evaluating the design and impact of these programs may provide some useful insights for future policy development.

The study will not examine the ‘safety-net’ adjustment measures used in Australia. These programs are generally available with asset and income tests applied to target assistance to those in most need. The objective is to assist producers who are in financial difficulties. The ‘safety-net’ policies facilitate structural adjustment across the agricultural sector with programs for exit assistance, re-training, business advice, etc.

Project objective

The objective of the project is to evaluate Australian policy experiences in managing industry adjustment pressures created by trade reform. The project has three components:

1. Review a selection of industries that faced adjustment pressures caused by reductions in border protection, domestic policy reform and substantial changes in world prices.
2. Analyse the industry adjustment that occurred and evaluate the Government policy response in the form of industry specific assistance programs.
3. Describe the economic principles for designing transitional industry adjustment measures that facilitate structural change and promote industry competitiveness.

Industry adjustment to agricultural trade reform

The WTO trade negotiations will require governments to implement policy reforms that relate to border protection and domestic support arrangements. In many countries it will lead to adjustment pressures for ‘sensitive’ industries. The WTO reforms will be phased-in to give industries time to adjust. However, there will be requests for additional assistance. An option for governments is to design a transitional policy response that:

- retains the economy wide benefits of trade liberalisation;
- facilitates structural change and movement of resources; and
- is consistent with their WTO obligations.

This project does not address the issue of how to determine if additional transitional assistance is required. It is concerned with the design of assistance measures to manage the impact of reform. A decision to provide assistance requires judgements about the circumstances facing the industry in terms of the size and the nature of the impact on producer returns. The policy options may be grouped into three types of response:

1. Allow market prices to dictate the industry adjustment without any additional assistance measures. The industry retains some assistance at progressively lower levels by phasing in the policy reforms.
2. Provide short term structural adjustment assistance. The transitional assistance would have a finite life and producers would still respond to market based price signals.
3. Provide longer term assistance to off-set the effect of the trade reform. This could involve WTO consistent measures such as de-coupled income support payments.

Producers get clear market signals on the need for change if the first type of policy response is adopted. However, in some cases the reform could have a substantial impact on producer returns. It can also have indirect consequences such as employment effects in regional economies, downstream processing, etc. Political reactions often lead to industry requests for additional government assistance.

The second type of response is concerned with managing the adjustment pressures. Transitional assistance is provided to help producers adjust to the change in market returns and facilitate structural adjustment. The assistance measures retain the link to market price signals and provide incentives that reinforce the need for change.

The third type of response involves longer term assistance that can dilute the incentive for change that comes from market price signals. Expectations of on-going assistance may affect future rates of productivity improvement and retard the structural adjustment process. This can affect industry competitiveness, distort resource movement and reinforce the political pressures for on-going assistance.

Australian industry adjustment policies

Australian policy responses may provide a useful reference point for overseas policy makers to consider in responding to the effects of WTO trade reforms. In some cases the response has relied on market forces in conjunction with general 'safety-net' assistance measures. In other cases an industry specific adjustment program has been implemented to manage the adjustment process.

Australian industry adjustment assistance has generally been concerned with two types of change. First, there have been programs to assist non-viable producers to either exit the industry or diversify into other agricultural activities. Second, there have been programs to improve producer competitiveness and adjust to lower market returns. Some adjustment packages have incorporated both types of programs.

Programs aimed at improving competitiveness have included direct producer assistance and/or general industry assistance. Direct assistance usually involved one-off grants to facilitate farm restructuring, business management training, adopting new technology, etc. Eligibility conditions were imposed to target assistance to those in most need. In-direct assistance generally involved project funding to develop the competitive position of the industry for the benefit of all producers.

Table 1: Cause of adjustment pressures for selected Australian industries

	<i>Dairy</i>	<i>Citrus</i>	<i>SA rock lobsters</i>	<i>Pig meat</i>	<i>Sugar</i>	<i>Victorian tobacco</i>
Trade reform - market access		✓		✓	✓	
Domestic reform - trade distortion	✓					✓
Domestic reform - environment			✓			
Declining world market prices		✓		✓	✓	

When direct assistance was provided the objective was to encourage productivity improvements to enhance net returns. In some cases the issue was limitations on the income earning capacity of producers due to factors such as farm size and location, capital constraints, etc. In other cases the issue was a deterioration of the relative competitiveness of producers due to management skills and/or production inefficiencies that related to yields, input useage, etc.

The first stage of the project involved a review of six recent examples of Australian industry adjustment issues:

- Australian dairy;
- Australian pig meat;
- Victorian tobacco;
- Australian citrus;
- Australian sugar; and
- South Australian southern zone rock lobsters.

Selections were compiled to provide a cross-section of adjustment issues and alternative policy responses (table 1). Availability of data for analysis of the adjustment that occurred before and after the Government response was a further consideration. In all cases the industry responded to global markets conditions and the policy reform involved substantial changes in producer returns.

The final report will include a comparison of the main features of the adjustment issues for the six industries. It will include a summary of the circumstances facing each industry including:

- the cause and the nature of the adjustment pressures;
- structural characteristics of the industry – price determination, government policies, global market exposure, size & distribution of farms;
- government inquiries into industry circumstances and requests for assistance; and
- the government policy response.

The government response to the adjustment pressures in all six industries varied considerably (table 2). With the exception of dairy and SA rock lobsters, industry requests for adjustment assistance occurred after the policy reform was implemented. In all cases the initial government response involved public inquiries into the circumstances surrounding the requests for assistance. These inquiries contributed to the development of the final policy response.

Table 2: Policy response to adjustment pressures for selected Australian industries

	<i>Dairy</i>	<i>Citrus</i>	<i>SA rock lobsters</i>	<i>Pig meat</i>	<i>Sugar</i>	<i>Victorian tobacco</i>
Exit assistance program	✓			✓	✓	✓
Industry assistance program	✓	✓		✓	✓	✓
Producer adjustment program	✓		✓		✓	✓
Access to general assistance programs		✓				
Respond to world market prices	✓	✓	✓	✓	✓	✓

Appendix tables A1, A2 and A3 compare key features of the adjustment issues and policy response for the six industries. The policy response varied according to the nature of the initial reform and the scale of the adjustment pressures. For example, adjustment pressures in the dairy industry were due to ending all market support arrangements on one day. In comparison the issue for the citrus industry involved phasing down border protection over several years:

- dairy industry adjustment assistance involved programs worth \$1,920m which was mostly provided as direct assistance to producers;
- the citrus industry received a general industry assistance program worth \$8m.

Adjustment assistance in the Australian dairy industry

The circumstances for adjustment assistance in the dairy industry related to the removal of all support arrangements affecting the supply and domestic pricing of milk. Deregulation occurred overnight on 1 July 2000. Phasing out the regulations was not feasible as the change affected a range of Federal and State Government legislation. Industry groups and Government recognised the size and concentration of the impact of deregulation would require restructuring assistance.

The policy reform had trade implications as the industry had developed a strong export focus. There had been substantial industry adjustment during the 15 years before deregulation. The adjustment was linked to a phased reduction in support for the export sector of the industry. However, the manufacturing milk sector retained limited support from domestic sales and price support arrangements for domestic fluid milk sales remained in place.

Deregulation accelerated the industry adjustment process and the impact was substantially greater for fluid milk producers (table 3). Market returns for all producers were linked to world market developments. The Government response was a \$1.8 billion restructuring plan mostly composed of direct producer assistance for adjustment purposes. Additional assistance of \$140m was subsequently provided for fluid milk producers:

- the amount of direct assistance for each producer was based on the relative exposure of individuals to the alternative price support arrangements;
- banks offered facilities to convert adjustment assistance to a single up-front payment;
- there was funding for an exit program and a regional (economy) adjustment program; and
- the assistance package was funded by a levy on domestic milk consumers.

Table 4: Adjustment in the Australian dairy industry

	Number of dairy farms			Milk production		Production per farm	
	<i>number</i>	<i>change</i>	<i>% change</i>	<i>m litres</i>	<i>% change</i>	<i>'000 litres</i>	<i>% change</i>
1990-91	14 986	- 410	-2.7	6 403	2.3	427	5.0
1991-92	14 760	- 226	-1.5	6 732	5.1	456	6.7
1992-93	14 624	- 136	-0.9	7 325	8.8	501	9.8
1993-94	14 510	- 114	-0.8	8 079	10.3	557	11.2
1994-95	14 166	- 344	-2.4	8 206	1.6	579	4.0
1995-96	13 888	- 278	-2.0	8 714	6.2	627	8.3
1996-97	13 753	- 135	-1.0	9 036	3.7	657	4.7
1997-98	13 478	- 275	-2.0	9 440	4.5	700	6.6
1998-99	13 156	- 322	-2.4	10 179	7.8	774	10.5
1999-00	12 888	- 268	-2.0	10 847	6.6	842	8.8
2000-01 *	11 837	-1 051	-8.2	10 546	-2.8	891	5.9
2001-02	11 048	- 789	-6.7	11 271	6.9	1 020	14.5
2002-03(p) **	10 633	- 415	-3.8	10 322	-8.4	971	-4.8

Source: ADC Australian Dairy Industry in Focus 2002

* Poor season and deregulation on 1 July.

** Widespread drought conditions.

Adjustment assistance for the Australian citrus industry

The circumstances for adjustment assistance in the citrus industry primarily involved a change in trade policy. Reduced protection through progressive tariff reductions for frozen orange juice concentrate (FCOJ) led to increased competition from imports. It contributed to lower returns for orange growers, especially those producing valencia fruit for the processing sector.

Adjustment pressures were also linked to a change in global trading conditions. Increased exports from Brazil put downward prices on world prices. The declining trend in world prices exposed the relative cost competitiveness of the Australian industry. Brazil had developed a substantial competitive advantage based on production efficiencies from large scale operations.

Across the industry there were major differences in the extent of the adjustment pressures based on the scale and production focus of individual producers. The Government response was limited to a small industry assistance program. Requests for direct assistance for restructuring purposes were rejected. Market forces were the key driver of structural adjustment:

- a request for temporary assistance through the WTO safeguards rules;
- the assistance funded projects designed to reduce direct competition with imports and encourage producers to focus on alternative market segments; and
- general agricultural assistance programs were used to facilitate adjustment.

Adjustment assistance for the South Australian rock lobster industry

The circumstances for adjustment assistance in the SA southern zone rock lobster industry related to a domestic policy reform. The economic performance of the industry had been declining for several years and a major adjustment issue developed. It was an environmental issue linked to the declining biological performance of the lobster stocks.

Operator returns were determined by export prices and the size of their catch. Access to fishery stocks was restricted and licence holders were increasing their catch to off-set rising production costs. However, the viability of all producers was linked to the ecological sustainability of the fishery stocks. Government intervention was required to develop a sustainable resource management regime and manage the adjustment pressures.

The Government had previously funded a buyback scheme to reduce fishing capacity. Subsequent reforms involved introducing a supply management scheme based on catch quotas. Transferable access rights (ITQs) and restrictions on the fishing effort (intensity) created an in-built adjustment mechanism. Adjustment pressures were managed on an on-going basis by the measures designed to maintain resource stability:

- further Government assistance for licence retirements (adjustment) was not required;
- annual performance monitoring set adjustments to input and output restrictions; and
- the cost of the adjustment mechanism (policy) was industry funded through licence fees.

Adjustment assistance for the Australian pig industry

The circumstances for adjustment assistance in the pig industry involved a change in trade policy. Reduced import protection through a progressive relaxation of quarantine barriers caused a realignment of market outcomes to import parity pricing. The industry was exposed to increased competition from imports and fluctuations in world pig meat prices.

The industry made requests for import protection and direct assistance. Assessing the need for assistance was complicated by the normal cyclical aspects of industry pricing behaviour. Requests for direct assistance for restructuring purposes were rejected but some assistance was provided for producers to exit the industry. Market forces were the key driver of structural adjustment.

The Government response primarily involved a small industry assistance program. The industry adjustment measures focused on improving the competitive position of producers by developing new export markets where the industry had a potential competitive advantage:

- a request for temporary assistance through the WTO safeguards rules was rejected;
- the assistance funded projects designed to increase export opportunities – QA, export market development and promotion activities; and
- assistance was also provided to stimulate new investment in the processing sector.

Adjustment assistance for the Australian sugar industry

The circumstances for adjustment assistance in the sugar industry related to a trade policy reform and a substantial change in global trading conditions. The trade reform involved eliminating the tariff on sugar import to ensure export parity pricing for domestic sugar sales. The change in global trading conditions related to increased competition from Brazilian sugar exports.

Over time declining returns from the world market exposed the relative cost competitiveness of the Australian sugar industry. Adjustment pressures were evident before the strong growth in Brazilian exports began to affect world sugar prices. More recently a period of low world prices has combined with disease outbreaks and adverse seasonal conditions to create a short term industry adjustment issue.

The industry made several requests for direct assistance measures. The Government response included direct assistance for producers to exit the industry. It also included measures to encourage productivity improvements aimed at helping the industry improve its competitive position on the world market. Additional assistance was provided to encourage producers to diversify into alternative income earning activities.

Adjustment assistance for the Victorian tobacco industry

The circumstances for adjustment assistance in the Victorian tobacco industry involved a trade policy reform as part of deregulating institutional arrangements for domestic tobacco marketing. Industry stabilisation plans included import protection that had delivered high levels of assistance for more than 50 years. It had created an inefficient industry with no exports capability and too many growers servicing a declining domestic market.

The local leaf content scheme acted as an import quota that limited imports to a fixed share of the domestic market. Growers had 7 years warning of the date for deregulation and the need for industry adjustment. However, during the transition period the industry body did not move quickly enough to reduce production capacity and move to import parity pricing. A 35% cut in production entitlements was imposed on all growers as deregulation approached.

This caused a substantial contraction in grower returns and a major industry adjustment issue. The industry made a request for restructuring assistance. The Government responded by introducing a voluntary quota retirement scheme. Some growers exited the industry. Purchased quota was reallocated among the remaining growers for the final year of regulation to off-set the impact of quota reductions on grower returns.

Further work on Australian adjustment policies

The industry review has provided a variety of industry policy reforms that led to requests for adjustment assistance. The second stage of the project will involve a detailed analysis of the adjustment pressures and government policy response for four industry case studies. The Australian dairy, citrus and pig industries and the South Australian rock lobster industry are the four case studies. Analysis of the adjustment pressures will consider:

- financial performance of producers and the effect of global market developments;
- industry structural adjustment; and
- changes in industry productivity indicators.

If sufficient data is available the case studies will assess industry performance before and after the Government policy response. This is the primary reason for excluding the sugar industry from the case study analysis – the current adjustment policy was introduced in late 2002. Analysis of the government policy response will consider:

- conditions attached to direct producer assistance and exit assistance;
- mechanisms for targeting assistance, program funding and the delivery of assistance;
- access to general agricultural assistance measures; and
- the role of market forces.

Adjustment in the dairy industry due to deregulation is a particular focus of the project. It was a major policy change and involved a substantial assistance program for industry restructuring. A

survey is currently underway to assess how dairy producers have used the Government assistance to adjust to a deregulated market. The survey results will supplement time series data on financial performance provided by the ABARE farm survey of the dairy industry.

The second stage of the project will also consider the regional economy effects of industry adjustment. Regional employment and economic development issues are often cited as additional reasons for providing industry adjustment assistance. To assess the size of these flow-on effects an input/output model for a representative dairying region will be developed to simulate the impact of dairy deregulation and the industry adjustment package.

The final stage of the project will evaluate the design of the adjustment programs that have been used in Australia. The aim is to set out some general principles for developing transitional assistance measures that will facilitate structural adjustment. The reference point for the evaluation will be theory developed by Max Corden in *Trade Policy and Economic Welfare* (1974). Corden's approach to rank policies in a hierarchy according to the by-product distortions they introduce can be applied to the development of industry adjustment policies.

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Appendix table A1: Key features of adjustment pressures in selected Australian industries

	Source of adjustment pressures	Effect of the adjustment pressures	Magnitude of the adjustment pressures	Industry structure and price determination
<i>Australian Dairy Industry</i>	<p>Early to mid 1990's Domestic policy reform – less support for manufacturing milk. Changes in global trading conditions – lower world prices.</p> <p>Late 1990's Domestic policy reform – end of price support schemes for fluid milk & manufacturing milk.</p>	<p>Early to mid 1990's Lower producer returns for manufacturing milk producers. Reduced viability of small scale farms - some exit the industry.</p> <p>Late 1990's Large decline in returns for fluid milk producers: <ul style="list-style-type: none"> • ST rise in industry exits. </p>	<p>Early to mid 1990's Manufacturing milk support falls from 23% of total returns in 1990-91 to 13% in 1994-95.</p> <p>Late 1990's In the first year of deregulation; <ul style="list-style-type: none"> • fluid milk prices fall 25-30%; • loss of manufacturing milk support – 4% of total returns. </p>	<p>Manufacturing milk sector located in Vic/Tasmania: <ul style="list-style-type: none"> • strong export focus; • supplier returns reflect global market conditions. <p>Fluid milk sector maintained by state marketing schemes: <ul style="list-style-type: none"> • domestic market focus. <p>Mostly small scale family farms.</p> </p></p>
<i>Australian Pig Industry</i>	<p>Early to mid 1990's Trade policy reform – import quarantine barriers relaxed. Change in domestic trading conditions – lower beef prices.</p> <p>Mid to late 1990's Cost-price squeeze from high grain prices (drought). Structural shift in domestic trading conditions from 1997: <ul style="list-style-type: none"> • import parity pricing; • strong growth in imports. </p>	<p>Early to mid 1990's Lower producer returns in 1992. Reduced viability of small scale producers: <ul style="list-style-type: none"> • some exit the industry. <p>Mid to late 1990's Financial problems for small scale producers in 1994, 1995: <ul style="list-style-type: none"> • some exit the industry. <p>Big decline in producer returns in 1997 & 1998: <ul style="list-style-type: none"> • some exit the industry. </p> </p></p>	<p>Early to mid 1990's Pig meat prices decline 9% in 1992.</p> <p>Mid to late 1990's Barley prices rise 76% during the 1994 & 1995 period.</p> <p>Pig meat prices decline 30% during 1997 & 1998.</p>	<p>Largely located in grain growing areas in eastern states. Small scale family farms: <ul style="list-style-type: none"> • 80% have breeding herds < 100 head. <p>Domestic market focus: <ul style="list-style-type: none"> • growth in chilled exports to Singapore since 1999. <p>Producer returns reflect global market conditions: <ul style="list-style-type: none"> • price of imported leg meat a key driver of pig prices. </p> </p></p>
<i>Australian Sugar Industry</i>	<p>Mid 1990's to early 2000's Structural shift in global trading conditions: <ul style="list-style-type: none"> • export growth by Brazil; • lower world prices. <p>Changes in domestic trading conditions – disease outbreaks, poor seasonal conditions. Trade policy reform – import tariff removed. Domestic policy reform – export parity pricing for local sales.</p> </p>	<p>Mid 1990's to early 2000's Declining grower returns. Reduced viability of small scale producers: <ul style="list-style-type: none"> • some exit the industry. <p>Big decline in producer returns in 1998-99 & 1999-00: <ul style="list-style-type: none"> • widespread financial difficulties for growers; • some exit the industry. </p> </p>	<p>Mid 1990's to early 2000's In \$A terms world sugar price falls by 23% between 1996-97 & 1999-00.</p> <p>Specific rate tariff of \$55/t removed in 1997.</p> <p>Average sugar yields declines by 22% in 2000-01</p>	<p>Located on Qld costal fringe. Small scale family farms: <ul style="list-style-type: none"> • average farm size 75 ha. <p>Strong export market focus: <ul style="list-style-type: none"> • single desk export monopoly; • pooled pricing for growers; • supply acquisition in Qld; • designated cane growing areas based on mill locations. <p>Producer returns reflect global market conditions.</p> </p></p>

Australian Citrus Industry	<p>Early to mid 1990's Trade policy reform – tariff reductions for imported FCOJ. Loss of sales tax concessions. Structural shift in global trading conditions:</p> <ul style="list-style-type: none"> • export growth by Brazil; • lower world prices. <p>Mid to late 1990's Change in domestic trading conditions (2000-01):</p> <ul style="list-style-type: none"> • increased supply of orange concentrate. • large crop in Brazil – lower world price. 	<p>Early to mid 1990's Declining grower returns. Reduced viability of small scale growers:</p> <ul style="list-style-type: none"> • some exit the industry; • grower numbers fall 15% between 1993-94 & 1997-98. <p>Mid to late 1990's Financial problems for small scale valencia growers:</p> <ul style="list-style-type: none"> • some exit the industry. <p>Stronger adjustment pressure in:</p> <ul style="list-style-type: none"> • Riverina, 75% valencia fruit; • Riverland, 68% valencia fruit. 	<p>Early to mid 1990's Tariff of 35% & anti-dumping duty phased down over 8 years to 5% tariff by 1996:</p> <ul style="list-style-type: none"> • substantial tariff assistance pre-1988. <p>Mid to late 1990's Grower returns for valencia fruit fall by 25-30 % in 1999-2000.</p> <p>Landed price of FCOJ imports falls by > 20% in 2000-01.</p>	<p>Four major production regions. Many small scale growers not solely dependant on citrus:</p> <ul style="list-style-type: none"> • over 50% have < 10ha. <p>Domestic market focus:</p> <ul style="list-style-type: none"> • exports of fresh fruit use 20-25% of production. <p>Grower returns reflect market conditions for fresh produce:</p> <ul style="list-style-type: none"> • 15% of supplies are FCOJ; • imported FCOJ sets price for processing quality fruit.
Victorian Tobacco Industry	<p>Late 1980's to mid 1990's Reduced production quotas. Domestic policy reform – end of industry stabilisation plans:</p> <ul style="list-style-type: none"> • removal of 50% local leaf content requirement. <p>Trade policy reform – removal of import protection:</p> <ul style="list-style-type: none"> • de facto import quota ends; • exposure to price competition from imports. 	<p>Late 1980's to mid 1990's Declining grower returns:</p> <ul style="list-style-type: none"> • reduced production quotas; • domestic sales down 11% over 1980-90 period. <p>Reduced viability of small scale growers:</p> <ul style="list-style-type: none"> • some exit the industry; • quota holders fall 30% from 866 in 1984 to 608 in 1993. 	<p>Late 1980's to mid 1990's 7 years warning of end to local leaf content scheme by 1995:</p> <ul style="list-style-type: none"> • substantial assistance from import protection pre-1995; • eliminate world price gap. <p>Production quota cut 35% in 1994 – similar fall in grower returns.</p>	<p>Two major production regions. Small scale family farms:</p> <ul style="list-style-type: none"> • average size 35-40ha. <p>Domestic market focus:</p> <ul style="list-style-type: none"> • production quotas; • imports fixed market share; • no exports of tobacco leaf. <p>Fixed domestic price based on survey of growing costs:</p> <ul style="list-style-type: none"> • no link to world price change.
South Australian Southern Rock Lobster Industry	<p>The 1980's Long term decline in industry viability – excess fishing capacity & over-exploitation of lobster stocks.</p> <p>Early to mid-1990's Continued decline in biological performance of lobster stocks:</p> <ul style="list-style-type: none"> • threat to LT sustainability of resource & industry viability. 	<p>The 1980's Declining returns & reduced viability for all boat operators:</p> <ul style="list-style-type: none"> • some exit the industry; <p>Early to mid-1990's Declining total catch & reduced returns for all boat operators.</p>	<p>The 1980's Boat numbers reduced by 13% in 1987 from 324 to 283.</p> <p>Pot numbers by 2,455 in 1987.</p> <p>Early to mid-1990's Boat (licence) numbers decline by 36% from 283 in 1987 to 181 in 2000.</p>	<p>Single boat owner-operators – gear input restrictions, limited fishing season.</p> <p>Restricted commercial access to lobster stocks.</p> <p>Export market focus:</p> <ul style="list-style-type: none"> • live exports account for 95% of total catch. <p>Operator returns reflect global market conditions.</p>

Appendix table A2: Evaluating the need for adjustment assistance in selected Australian industries

	Industry requests for assistance	Formal investigation of adjustment issues	Exposure to world market conditions	What sort of adjustment is required?
<i>Australian Dairy Industry</i>	<p>Early to late 1990's Extended period to phase down support for manufacturing milk. Retain fluid milk price support.</p> <p>Early 2000's Structural adjustment assistance package – single, un-conditional tax-free grant. Larger grant for fluid milk suppliers.</p>	<p>Early to late 1990's IC Inquiry (1991) to look at industry competitiveness & support arrangements. NCP reviews of State Govt fluid milk price support schemes.</p> <p>Early 2000's Senate Inquiry (1999) to look at the impact of deregulation.</p>	<p>Competitive supplier of dairy products on the world market:</p> <ul style="list-style-type: none"> • export returns are a key driver of industry performance. <p>Some competition from imports of NZ dairy products:</p> <ul style="list-style-type: none"> • negligible tariffs on imports. 	<p>Productivity gains to improve cost competitiveness:</p> <ul style="list-style-type: none"> • larger scale dairy farms; • efficiency gains in pasture & water management; • upgrade management skills; <p>Rationalise dairy product plants into larger scale operations.</p>
<i>Australian Pig Industry</i>	<p>Early to mid 1990's Anti-dumping duties, Canadian imports (1992). Import restrictions (1995).</p> <p>Mid to late 1990's Exceptional Circumstances (EC) support payments (1988). Import tariff/quota based on WTO safeguards action (1988).</p>	<p>Early to mid 1990's Aust Customs Inquiry (1992) rejects anti-dumping case. IC Inquiry (1995) to look at impact of imports on industry.</p> <p>Mid to late 1990's RAS Advisory Council rejects EC assistance request (1988). PC Inquiry (1998), to formally assess WTO safeguards action.</p>	<p>Early to mid 1990's Limited competition from imports of frozen leg meat:</p> <ul style="list-style-type: none"> • tariff bound at 0% in 1995. <p>Mid to late 1990's De-facto import constraint from processor supply contracts ends. Strong growth in imports:</p> <ul style="list-style-type: none"> • 19% of market sales in 2000. 	<p>Productivity gains to improve cost competitiveness:</p> <ul style="list-style-type: none"> • larger scale production units; • upgrade management skills; • upgrade processing plants. <p>Increase exports of chilled pig meat products:</p> <ul style="list-style-type: none"> • improve product quality; • focus on Asian market needs.
<i>Australian Sugar Industry</i>	<p>Mid 1990's to early 2000's Assistance to enhance for farm productivity (mid 1990's). Industry assistance package (2000):</p> <ul style="list-style-type: none"> • support for replanting and farm development; • financial counselling; • EC income support payments. <p>Industry reform package (2002):</p> <ul style="list-style-type: none"> • income support payments; • mill rationalisations; • farm mergers; • exit assistance. 	<p>Mid 1990's to early 2000's IC Inquiry (1992) to review:</p> <ul style="list-style-type: none"> • marketing arrangements & actions to improve efficiency; • appropriate import tariffs for post 1992 period. <p>NCP regulatory review (1996). Government-Industry Taskforce (2000) to examine options for industry assistance package. Hildebrand independent review (2002) to examine:</p> <ul style="list-style-type: none"> • industry performance; • how to improve profitability. 	<p>Mid 1990's to early 2000's Competitive supplier of raw sugar on the world market:</p> <ul style="list-style-type: none"> • export returns are key driver of industry performance. <p>Competitive supplier of refined sugar on the domestic market:</p> <ul style="list-style-type: none"> • no tariff protection post-1997; • export parity pricing for domestic sales; • negligible imports of sugar. 	<p>Productivity gains to improve cost competitiveness:</p> <ul style="list-style-type: none"> • larger scale sugar farms; • upgrade management skills; • uptake of new technologies; • plant rationalisations. <p>End supply acquisition (Qld) & designated cane growing areas:</p> <ul style="list-style-type: none"> • increase competition for domestic sugar sales.

Australian Citrus Industry	<p>Early to mid 1990's Extended period to phase in tariff reductions. Direct assistance for business planning, training, farm redevelopment.</p> <p>Mid to late 1990's Structural adjustment package: <ul style="list-style-type: none"> • farm expansion, tree planting, & new technology grants; • domestic promotion funds; • enhanced exit assistance. WTO safeguards action against imports.</p>	<p>Early to mid 1990's IC Inquiry, Horticulture (1993).</p> <p>Mid to late 1990's PC Inquiry (2002) to look at: <ul style="list-style-type: none"> • industry assistance request; • industry competitiveness; • WTO safeguards inquiry. </p>	<p>Early to mid 1990's 8 year adjustment period for tariff reductions. Competitive supplier of fresh produce to domestic market: <ul style="list-style-type: none"> • no tariff protection. <p>Mid to late 1990's Strong competition from FCOJ imports. Export sales of fresh fruit to northern hemisphere markets: <ul style="list-style-type: none"> • natural seasonal production advantage. </p> </p>	<p>Increase exports of higher valued fresh fruit. Reduce direct competition with imported FCOJ: <ul style="list-style-type: none"> • improve product quality; • focus on fresh fruit and juice market segments; • diversify out of valencia fruit to higher valued navels. Productivity gains to improve cost competitiveness: <ul style="list-style-type: none"> • larger scale citrus orchards; • adopt new technologies. </p>
Victorian Tobacco Industry	<p>Late 1980's to mid 1990's Extended period before ending industry stabilisation plan. Restructuring assistance package from Vic Govt: <ul style="list-style-type: none"> • quota retirement scheme; • reallocate quota to remaining growers – transition measure to improve viability. Import protection after end of stabilisation plan – tariff-quota.</p>	<p>Late 1980's to mid 1990's IAC Inquiry (1987) to look at: <ul style="list-style-type: none"> • marketing arrangements; • industry competitiveness. <p>IC Inquiry (1994) to look at: <ul style="list-style-type: none"> • appropriate import tariffs for post deregulation period; • impediments to industry restructuring. </p> </p>	<p>Late 1980's to mid 1990's Fixed market share for imports. No price competition from imported leaf: <ul style="list-style-type: none"> • world price gap of 43% over 1989-90 to 1992-93 period. <p>Import tariff set at 0% after stabilisation plan ends (1995). Export sales of leaf not cost competitive.</p> </p>	<p>Shift to world parity pricing during final stabilisation plan: <ul style="list-style-type: none"> • adjust grade differentials to reflect world prices. <p>Productivity gains to improve cost competitiveness: <ul style="list-style-type: none"> • larger scale production units; • upgrade management skills. </p> </p>
South Australian Southern Rock Lobster Industry	<p>The 1980's Licence retirement scheme to reduce boat numbers.</p> <p>Early to mid-1990's Resource management scheme to stabilise stocks at sustainable levels & improve profitability: <ul style="list-style-type: none"> • production controls through license retirements; • no catch quotas & gear input restrictions. </p>	<p>The 1980's SA Govt Inquiry (1984) to look at adjustment options to improve industry viability.</p> <p>Early to mid-1990's SA Govt Inquiry (1992) to look at resource management options. Industry-Government Fisheries Management Committee review (1994) to look at options for allocation of catch quotas.</p>	<p>Competitive supplier of fresh lobsters on the world market: <ul style="list-style-type: none"> • export returns are a key driver of industry performance. </p>	<p>Limited access rights to the resource to improve viability of commercial operators.</p> <p>Variable catch quotas to manage lobster resource stocks for long term sustainability: <ul style="list-style-type: none"> • tradable quota rights to facilitate industry adjustment. </p>

Appendix table A3: Policy response to adjustment pressures in selected Australian industries

	Industry assistance programs	Program objectives	Key measures	Incentives for adjustment
<i>Australian Dairy Industry</i>	<p>Early to late 1990's No industry adjustment package.</p> <p>Early 2000's DIAP (adjustment package), 2000-01, \$1,780m over 8 years:</p> <ul style="list-style-type: none"> • DSAP, \$1,630m; • Dairy RAP, \$45m; • DEP, exit assistance, \$80m. <p>SDAS (extra assistance), 2001, \$140m over 8 years:</p> <ul style="list-style-type: none"> • DSAP, \$120m; • Dairy RAP, 20m. 	<p>Early 2000's Facilitate structural adjustment:</p> <ul style="list-style-type: none"> • assistance for farm business restructuring to improve competitiveness & viability. • provide exit assistance for unviable producers. <p>Facilitate economic & social adjustment in dairy regions:</p> <ul style="list-style-type: none"> • create regional employment. 	<p>Early 2000's DSAP grant based on individual exposure to support schemes:</p> <ul style="list-style-type: none"> • banks facilitate conversion of grant to an up-front payment; • capped grant to big suppliers. <p>\$45,000 exit grant for unviable producers – assets test applies.</p> <p>Regional Dairy RAP grants for:</p> <ul style="list-style-type: none"> • investment in new businesses; • retraining & counseling. 	<p>Early to late 1990's Reduced domestic price support & market returns.</p> <p>Early 2000's DSAP grant requires farm viability assessment:</p> <ul style="list-style-type: none"> • focus on future options. <p>Exit grants available to all:</p> <ul style="list-style-type: none"> • choice of taxable DSAP grant or tax-free DEP exit grant. • required to exit agriculture for 5 years.
<i>Australian Pig Industry</i>	<p>Early to mid 1990's No industry adjustment package.</p> <p>Mid to late 1990's PIRS (restructure strategy), 1998, \$26.2m over 3 years:</p> <ul style="list-style-type: none"> • NPIDP, \$14.1 m; • PPGP, plant upgrades, \$8m; • PorkBiz, training, \$1m; • PPEP, exit assistance, \$3.1m. 	<p>Mid to late 1990's Improve competitiveness in pig growing and processing sectors:</p> <ul style="list-style-type: none"> • compete with imports; • develop new export markets. <p>Facilitate structural adjustment:</p> <ul style="list-style-type: none"> • provide exit assistance for unviable growers. 	<p>Mid to late 1990's Project funding for QA, training & market development.</p> <p>Grants for investment in new plant & facility upgrades.</p> <p>Grants for management training.</p> <p>\$45,000 exit grant for unviable producers – assets test applies.</p>	<p>Early to mid 1990's Market returns.</p> <p>Mid to late 1990's No \$ for \$ funding required for NPIDP project grants.</p> <p>Plant upgrade grants limited to 5% of total cost, cap of \$0.5m.</p> <p>Exit grants available to all:</p> <ul style="list-style-type: none"> • must exit industry for 5 years.
<i>Australian Sugar Industry</i>	<p>Mid 1990's to early 2000's SIAP (research support), 1998-99, \$13.5m over 4 years. SIAP (grower support), 2000-01, \$60m over 1.5 years. SIIP (infrastructure support) 2000-01, \$40m over 4 years. SIRP (industry reform), 2002, \$150m over 3 years:</p> <ul style="list-style-type: none"> • regional restructuring & exit assistance (SEP), \$70m. • Qld Govt programs, \$30m. 	<p>Mid 1990's to early 2000's Improve grower competitiveness through productivity gains. Assist growers to manage ST financial issues - cane planting. Assist infrastructure investment to enhance productivity. Manage ST financial issues & facilitate structural adjustment:</p> <ul style="list-style-type: none"> • improve grower viability – exit grants if unviable; • create regional employment. 	<p>Mid 1990's to early 2000's Research project funding on sugar yields, pest control, etc. Income support payments, loan subsidies, financial counselling. Infrastructure investment grants – transport, irrigation. SIRP funds for regional projects – diversification, alternative sugar uses, business investment. Tax free \$45,000 exit grant for unviable producers – assets test.</p>	<p>Mid 1990's to early 2000's Market returns. SIAP & SIRP grants require farm viability assessment:</p> <ul style="list-style-type: none"> • focus on future options. <p>Loan subsidies available to all:</p> <ul style="list-style-type: none"> • time & \$ limit on subsidy. <p>Exit grants requires farm viability assessment:</p> <ul style="list-style-type: none"> • must exit industry for 5 years. <p>Access to SIRP project funding requires viable business plan.</p>

Australian Citrus Industry	<p>Early to mid 1990's CMDP (market development), 1996, \$8.4m over 5 years.</p> <p>Rural Partnership Programs (RPP's) in 3 citrus regions:</p> <ul style="list-style-type: none"> total funding \$20.1m. <p>Access to general agricultural adjustment programs (AAA) for exit assistance.</p> <p>Mid to late 1990's No industry specific structural adjustment package. No WTO safeguards inquiry.</p>	<p>Early to mid 1990's Increase exports – promotion, improve market access. Reduce FCOJ market exposure. Increase fresh juice demand.</p> <p>Promote social, environmental & economic change in regional areas. Facilitate structural adjustment & provide exit assistance for growers in financial difficulty.</p>	<p>Early to mid 1990's No direct grower assistance. Project funding for QA, market access, domestic promotion & industry development.</p> <p>Assistance to eligible growers for business plans, training, farm expansion & development. Income support for 12 months. \$45,000 exit grant for unviable producers – assets test applies.</p>	<p>Early to mid 1990's Market returns for processing quality fruit. Industry assistance program increased QA awareness.</p> <p>Business plan required to access other assistance with focus on:</p> <ul style="list-style-type: none"> viability, farm development. <p>Income support requires farm viability assessment:</p> <ul style="list-style-type: none"> exit grant requires farm sale.
Victorian Tobacco Industry	<p>Late 1980's to mid 1990's Vic Govt quota buy-out scheme, 1993-94, \$3m in one year.</p> <p>IC recommended tariff of 25% rejected for national quota buy-out scheme – manufacturer (\$10.8m) & State Govt funding.</p>	<p>Late 1980's to mid 1990's Facilitate quota retirement by least efficient Vic growers. Improve viability of remaining Vic growers & reallocate quota:</p> <ul style="list-style-type: none"> increase scale of producers & improve productivity in deregulated market. 	<p>Late 1980's to mid 1990's Voluntary purchase of quota held by selected Vic growers. Reallocation based on existing quota market shares.</p> <p>Abolish State Marketing Board for Vic tobacco production.</p>	<p>Late 1980's to mid 1990's Limited quota buy-out offered to selected Vic growers:</p> <ul style="list-style-type: none"> produced low grade leaf; close to retirement age; small quota and small farms. <p>Required to exit industry for 5 years – farm mortgage held.</p>
South Australian Southern Rock Lobster Industry	<p>The 1980's SA Govt scheme to reduce pot numbers & limit the number of pots per licence, 1984. SA Govt licence retirement scheme, 1987.</p> <p>Early to mid-1990's SA Govt scheme for supply management with a competitive total catch quota, 1992-93. SA Govt scheme for individual variable catch quotas (ITQ's), 1993-94.</p>	<p>The 1980's Reduce fishing effort & improve sustainability of lobster stocks. Facilitate licence retirements. Improve viability of remaining owner-operators.</p> <p>Early to mid-1990's Manage annual lobster catch for LT resource sustainability. Improve economic viability of owner-operators through input & output controls.</p>	<p>The 1980's No direct assistance – 15% cut in pot numbers for all operators:</p> <ul style="list-style-type: none"> max limit of 80 pots/licence. <p>Voluntary retirement of 2,455 pots & 41 licences.</p> <p>Early to mid-1990's Annual catch quota based on sustainable exploitation rate. Pot yield restrictions & ITQs - operators have a share of quota. Annual monitoring of biological & economic performance.</p>	<p>The 1980's Limited licence & pot retirement scheme offered to all owner-operators.</p> <p>Early to mid-1990's Supply management system has adjustment mechanism:</p> <ul style="list-style-type: none"> catch quota adjusts annually; pot yield restrictions adjusted. <p>Cap on total pot numbers. Limit on licences (boats). Licences & pots are tradeable – facilitates resource movement.</p>