

**Australian Government
Department of Agriculture, Fisheries and Forestry
Quota Administration Unit
2008/09 Annual Statement**

The Department of Agriculture, Fisheries and Forestry (the department) manages tariff rate quotas (TRQs) on behalf of Australia's meat and dairy industries for products subject to controlled importation by the European Union (EU) and the United States of America (US). The department provides this service on a cost recovery basis with the ongoing costs of TRQ administration recovered from users of all aspects of this service. The Australian Government's formal cost recovery policy has been in place since 2002.

This report provides information on the details of the administration, mechanics and costings of the TRQs for the 2008/2009 financial year.

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PERFORMANCEQuota Administration

The department manages the TRQ system through the Quota Administration and Statistics Unit (the Quota Unit). During 2008/09 the Quota Unit issued the following number of quota certificates or approvals:

• United States Beef	13,443	60 companies
• European Union Sheepmeat	1,635	26 companies
• European Union High Quality Beef	540	15 companies
• Australia-United States Free Trade Agreement	235	50 companies
• World Trade Organisation EU and US Dairy	60	8 companies

REVENUE AND EXPENDITURE

Revenue

The revenue of the Quota Unit is calculated monthly and reported by financial year. In 2007/08 the Quota Unit received \$332,034 in revenue from fees:

- \$111,792 from meat quota charges
- \$220,242 from dairy quota charges

During 2008/09 the Quota Unit received \$374,579 in revenue from quota fees:

- \$137,497 from meat quota charges*
- \$237,082 from dairy quota charges

This represents a 13% increase on 2007/08 figures (a 23% increase in meat quota revenue and an 8% increase in dairy quota revenue from fees).

See tables 1 and 2 at pages 6 and 7 for details.

Administration of the managed export quotas is undertaken on a cost recovery basis, with a fee being charged on a cents per kilogram basis for quota allocated to exporters. The revenue is used to fund the Quota Unit and to develop and maintain supporting technology.

Quota Fees for 2008/09

Meat - 0.0005 cents per kilogram (50 cents per tonne)*

Dairy - 0.007 cents per kilogram (\$7 per tonne).

- Application fee of \$200 per tariff rate quota (TRQ) category for quota allocations

* Meat Quota Charges – Government Appropriations

Surplus revenue was accumulated from meat quota fees in 2003. Accordingly, charges applied to EU and US beef quotas were reduced from 0.008 cents per kilogram to 0.0005 cents per kilogram. The accumulated surplus is being drawn down over 5 years. During 2008/09 the Quota Unit received \$508,345 in government appropriations as part of the draw-down of these surplus funds (Table 1). These surplus funds will be depleted completely in the 2009/10 financial year, and meat quota fees will need to be reassessed to ensure administration costs are fully recovered from around July 2010.

Expenditure

Staffing expenses

Day-to-day operation of the Quota Unit requires two full-time and two part-time employees, with the Unit's base budget including salary and on-costs, such as superannuation and leave expenses.

In managing the TRQs, the Quota Unit staff:

- receive and assess applications for annual allocations of AUSFTA and WTO dairy quotas
- calculate and allocate quotas and advise recipients of allocations.
- obtain preferred importer details from WTO dairy quota holders and advise the United States Department of Agriculture of designated importers.
- issue approvals and certificates for most meat and dairy quotas.
- monitor usage of all allocated meat and dairy quotas and unallocated AUSFTA quotas.
- monitor quota allocation transfers.
- recall and reallocate quota entitlements.
- respond to queries from exporters on quota or export procedures.
- assist in resolving bilateral quota management issues in consultation with other Australian and foreign government agencies.
- report weekly to the Directorate General for Agriculture (European Commission) and the Australian Embassy in Brussels on quota fill and certificates issued for both EU beef and sheepmeat quotas.
- develop and implement E-cert.
- produce and publish web reports on quota usage; twice weekly for meat quotas and weekly for AUSFTA Dairy.
- provide export statistics for meat and dairy products to government, industry, and the public via the website.

Information Technology

IT equipment is integral to the business of the Quota Unit, and maintenance of this equipment and its depreciation is the major expense next to staffing costs of managing both the meat and dairy quotas.

Purpose-designed IT application systems DAISY (dairy) and SARA (beef) support the data processing required to administer dairy and beef quotas. These systems receive data from the AQIS Export Documentation (ExDoc) system, following data input by exporters. Licensing fees for the DAISY and SARA systems are a major expense.

The DAISY system was developed during 2007/08 with the capital cost of approximately \$250,000 to be amortised over 5 years. This system has led to reductions in support expenditure and other cost efficiencies, as a number of manual tasks have now been automated.

Corporate Costs

The Department of Agriculture, Fisheries and Forestry attributes corporate costs across the department's activities, including the Quota Unit. These costs include corporate financial services, human resource services, governance and security, amongst other things.

Within the Quota Unit, the functions are fully cost recovered. The allocation of corporate costs within the Unit between meat and dairy administration is based on the revenue from fees received by each (meat and dairy) each year.

Revenue received from dairy fees has exceeded that of meat fees over the past several years. This has resulted in dairy administration having to meet higher corporate costs, relative to meat. This is because government appropriations (such as those received for meat quota administration as outlined above) are not taken into account when calculating revenue from fees for the year. Rather, they relate to over-collections in previous years' revenues. Once the draw-down of the over-collection for the meat quota is completed (during 2009/10), the fees for meat quota administration will need to increase to ensure that expenses in meat quota administration can continue to be fully cost recovered. Revenue from meat quota fees for 2010/11 onwards is therefore likely to exceed that from dairy fees. This will be reflected in increased corporate costs for meat quota administration and a corresponding decrease in corporate costs for dairy quota administration.

Meat Quota Revenue and Expenses

Government appropriations account for more than 70% of the revenue of the Meat Business Unit. As discussed earlier, these appropriations come from surplus revenue collected in 2003. After the 2009/10 financial year these appropriations will cease, as the over-recovery will have been fully balanced. Meat quota fees will therefore need to be increased at that time to avoid operating at a substantial loss in future years. Under legislation, the department can only draw down on funds which have been paid as quota fees to cover expenses associated with administering the quota. It is therefore a requirement that revenue from fees is sufficient to cover these costs.

Table 1

Meat Quota	2007/08	2008/09	2009/10 (Budget)
Opening balance (operating account)	135,641	0 ¹	15,181
Opening balance (gov appropriation account)	1,446,215		
Revenue			
Gov Appropriation	508,345	520,000	418,832 ²
Revenue from fees	111,792	137,497	88,652 ³
Total Revenue	620,137	657,497	507,484
Expenses			
Staffing Expenses	224,904	189,343 ⁴	205,232
Consultants		-	2,000
IT Comms and Office Equipment	222,895	172,540	86,037
General Office Supplies	1,647	1,933	-
Temp Staff		1,610	-
Communications General	230		
Legal Services	-161 ⁵	47	-
Corporate Costs	25,232	15,043	31,915 ⁶
Travel	2,613	275	1,000
Other Administrative	245		
Governance			
Publications			
Depreciation	237,748	237,748	178,311
Total Expenses	715,353	642,316	507,485
NET SURPLUS/DEFICIT	-95,216	15,181	(projected) 30,000
Closing balance (operating account)	-40,425	15,181	(projected) 30,000
Closing balance (gov appropriation account)	938,831	418,832	0

¹ The opening balance in 2008/09 was \$0. This does not match the closing balance shown for 2007/08 as adjustments had to be made to the meat quota account for expenditure which was made on IT systems on behalf of the dairy quota operations in an earlier year.

² This represents the final balance in the Government appropriation for meat quota. At the end of 2009/10 this appropriation will be fully expended and the costs of administering the meat quotas will have to be met completely by the revenue raised from fees.

³ The actual revenue from fees is likely to be around \$120K. This figure represents the amount which will need to be drawn down to cover the costs of managing the quotas in 2009/10. The remaining ~\$30K will be available to be drawn down against costs in 2010/11.

⁴ Staffing costs decreased in 2008/09 when two of the Quota Unit staff positions were converted to part-time as a result of IT efficiency gains.

⁵ Credit resulting from an over-charge of legal services in 2005/06.

⁶ Corporate costs for 2009/10 for the Quota Unit were split proportionately to anticipated revenue from fees paid for meat and dairy quota during 2009/10

Dairy Quota Revenue and Expenses

Revenue from fees in 2008/09 was slightly higher than during 2007/08. A new model for allocating dairy quotas was introduced in October 2009. The new model requires dairy manufacturers to apply for the specific amount of quota which they anticipate using in each tariff rate quota category (TRQ). It is anticipated that the application of this new quota allocation process will result in a reduction in total revenue received from volume-based quota fees. This will be partly off-set by the new application fee of \$200 per TRQ introduced under the new application based model for quota allocations.

Table 2

Dairy Quota	2007/08	2008/09	2009/10 Budget
Opening balance	48,457	129,189¹	146,489
Revenue from annual quota allocations			162,815
Revenue from annual application fees			12,600
Projected Revenue from fees (Dec09)			175,415
Budgeted Revenue from fees			238,374
Revenue from fees	220,242	237,082	
Expenses			
Staffing Expenses	65,473	71,718	69,780
Consultants			
IT Comms and Office Equipment	51,613	77,696	73,521
Other Admin		1,439	
General Office Supplies	22	1,689	
Communications General	230		
Corporate Costs	38,301	26862	46,982 ²
Publications		265	-
Travel	466		
Depreciation		42,990	42,990
Total Expenses	156,105	219,782	238,374
NET SURPLUS/DEFICIT	64,137	17,300	(-62,959) projected
Closing balance	112,594	146,489	(83,530) projected

¹ The opening balance for 2008/09 does not reflect the closing balance for 2007/08 due to an accounting error which has been corrected in the expenses for 2008/09.

² Corporate costs for 2009/10 for the Quota Unit have been split proportionately to anticipated revenue from fees paid for meat and dairy quota during 2009/10

The revenue from the annual allocation of quota in November 2009 is approximately \$175,000 (if all applicants accept their annual quota offers). Although the total annual revenue may increase if exporters access first-come-first-served quota during the quota year, the total revenue is likely to be much less than the anticipated costs of administering the quota during 2009/10. Any under recovery during 2009/10 would be offset by funds available from the 2008/09 surplus. As with the meat quota, the department can only draw down on funds received from quota related fees to recover costs associated with

managing the quotas. It is therefore important that there remain a small buffer of funds to ensure all costs can be fully recovered during 2010/11.

QUOTA FILL RATES

For the past three years all European Union (EU) meat quotas have been filled or very nearly filled. Fill rates for 2009 are expected to continue this pattern (Table 3).

Table 3: Meat quota fill rates

Quota Type	EU High Quality Beef (HQB) ¹	EU Sheepmeat and Goatmeat	US Beef
Total Quota (Kgs) 2008	7,150,000	18,786,000	398,214,000 ²
Total Shipped (Kgs) 2008	7,121,235	18,764,477	220,516,249
Balance (Kgs) 2008	28,765	20,821	176,884,784
% Shipped 2008	98%	>99%	56%
% Shipped 2006	100%	100%	78%
% Shipped 2007	100%	100%	75%
% Shipped 2009 (as at 11 Nov)	57%	93%	64%

¹ EU high quality beef is the only quota administered by financial year. Therefore '2007' refers to the 2007/08 financial year, '2006' refers to 2006/07 and '% shipped 2009 to 11 Nov' represents the 2009/10 financial year.

² The US Beef quota volume increased to 403,214,000 kg for 2009.

For the past three years EU WTO cheese quotas have been fully utilised and this trend is expected to continue in 2009. However, US WTO cheese quotas are historically less predictable with some fill rates varying significantly from year to year. There are also significant differences in the fill rates in between US WTO quota categories (Table 4).

Table 4: WTO cheese quota fill rates

Quota Type	EU Cheddar	EU Cheese for Processing	US Cheddar	US Granular	US NSPF (other cheese)	US Swiss
Total Quota (Kgs) 2008	3,711,000	500,000	2,450,000	1,000,000	3,050,000	290,300
Total Shipped (Kgs) 2008	3,652,688	499,300	1,553,734	459,840	339,642	0
Balance (Kgs) 2008	58,312	700	896,266	540,160	2,710,358	290,300
% Shipped 2008	99%	100%	65%	46%	22%	0%
% Shipped 2006	100%	99%	72%	46%	86%	0%
% Shipped 2007	100%	100%	81%	40%	63%	0%
% Shipped 2009 (as at 11 Nov)	94%	0%	60%	46%	31%	0%

Up to and including the 2009 quota year, AUSFTA Dairy Quotas include 11 allocated quotas and three unallocated quotas. For quota issued for use from 1 January 2010,

allocations for all TRQs will be offered to eligible dairy manufacturers. Any quota remaining unallocated after the annual allocation process will be made available on a first-come-first-served (FCFS) basis to any exporter.

Fill rates on AUSFTA Dairy Quotas have been varied. Allocated butter and Goya Cheese consistently approach full quota fill, however, usage of many quotas has decreased between 2006 and 2008, with three quotas showing 0% fill rates in 2007 and four quotas showing 0% fill rates in 2008. A similar usage pattern appears to be occurring in 2009 (Table 5).

Table 5: AUSFTA Dairy Quota fill rates

Quota Type	Allocated Quotas – 2008											Unallocated Quotas - 2008		
	American Cheese (A)	Butter (B)	Condensed Milk (D)	Other Milk Powders (F)	Cheddar Cheese (H)	Skim Milk Powder (K)	Cream (M)	Other Cheese (O)	Swiss Cheese (T)	European Cheese (U)	Goya Cheese (Z)	Other Dairy Products Category A (L)	Other Dairy Products Category B (J)	Ice Cream (I)
Total Quota 2008 (Kgs/Ltrs)	546,364	1,639,091	3,573,048	4,499,456	819,545	109,273	5,955,080	4,051,688	578,813	2,315,250	2,894,063	1,786,522	178,560 ¹	2,977,540
Total Shipped 2008 (Kgs/Ltrs)	68,020	889,650	0	1,575,625	731,429	0	53,000	821,574	4,563	337,315	781,012	1,270,498	0	9
Balance 2008 (Kgs/Ltrs)	478,344	749,441	3,573,048	2,923,831	88,116	109,273	5,902,080	3,230,114	574,250	1,977,935	2,113,051	516,024	0	2,977,531
% Shipped 2008	12%	54%	0%	35%	89%	0%	1%	20%	1%	15%	27%	71%	0%	0%
% Shipped 2006	78%	98%	12%	97%	88%	35%	7%	67%	3%	73%	89%	87%	0%	0%
% Shipped 2007	69%	98%	0%	62%	59%	0%	6%	70%	7%	60%	86%	61%	0%	3%
% Shipped 2009 (as at 11 Nov)	20%	59%	0%	73%	72%	0%	0%	67%	0%	76%	0%	46%	0%	0%

¹ In 2008 there were no applications for Other Dairy Products Category B (J), so the full volume of this quota was rolled into Other Dairy Products Category A (L) as per the rules for its usage.

Tables 3 to 5 also demonstrate that quotas do not necessarily fill consistently month by month. Some quotas will be filled before the end of the quota year while others will have fewer shipments earlier in the year and more later.

DAIRY QUOTA REVIEW

In October 2009 the *Dairy Produce Regulations 2006* were amended to incorporate significant changes to the allocation and ongoing administration of dairy tariff rate quotas to the EU and US.

The amendments follow an in depth review by an independent panel into the administrative arrangements for all the EU and US dairy quotas managed by Australia, to examine the efficiency and effectiveness of the arrangements and to identify improvements.

In January 2009 the Hon. Tony Burke MP, Minister for Agriculture, Fisheries and Forestry, publicly responded to the review panel's recommendations, accepting the general thrust of the recommendations. The Minister requested the department to work closely with industry in determining the finer details of the proposed model for quota allocation and in developing changes to the regulations which underpin quota administration.

The new dairy quota allocation model introduces an annual application process for eligible dairy manufacturers seeking allocations of EU and US dairy quotas. Entities that are not eligible applicants, but that are interested in obtaining EU and US dairy quota, are able to access quota that is not taken up during the application process on a first-come-first-served basis or by obtaining it from eligible applicants.

Further information on the 2008 Dairy Quota Review's recommendations, including electronic copies of the report and Minister Burke's response to the report, are available at www.daff.gov.au/agriculture-food/meat-wool-dairy/dairy-quota-review.

FORECAST AND EVALUATION

The Australian Bureau of Agricultural and Resource Economics (ABARE) forecasts that US demand for Australian beef will fall in 2009/10 following the significant increase in Australian beef exports to the US in 2008/09 (up 18% from 2007/08). This growth was due to the low Australian dollar and the move in consumer preference to less expensive meat options (such as ground beef imported from Australia) in response to the economic downturn. Furthermore, the increased availability of local product resulting from culls of dairy herds (a US Government strategy to support domestic milk prices), along with a rising Australian dollar, will put further pressure on imports of manufacturing beef from Australia.

ABARE forecasts weak growth in the global demand for dairy products due to the ongoing economic downturn. Subsidies offered in the US and EU are also dampening world dairy prices, and a high Australian dollar will make Australian dairy exports less attractive.

As administration of the meat and dairy quotas is fully cost recovered, it is necessary to review revenue earnings and fee rates to ensure compliance with the government's cost recovery guidelines. With government appropriations for surplus meat quota collections expected to be exhausted during 2009/10 the meat quota rates will need to be reviewed to ensure that quota administration does not run into deficit and continues to recover its costs in 2010/11. A process to examine the Meat Business Unit's income and expenditure is underway.

FURTHER INFORMATION

Requests for further information should be directed to:

Quota Administration Unit
Agricultural Productivity Division
Department of Agriculture, Fisheries and Forestry
GPO Box 858
CANBERRA ACT 2601

Fax: (02) 6272 4585
E-mail: quota.admin@daff.gov.au