

**Australian Government
Department of Agriculture, Fisheries and Forestry
Quota Administration Unit
2007/08 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 2007/2008 financial year.

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PERFORMANCE

Quota Administration

The department manages the TRQ system through the Quota Administration and Statistics Unit (the Quota Unit). During 2007/08 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

New Initiatives

E-cert is an electronic government-to-government system that generates export certificates for traded food and agricultural commodities. The system allows the exporting country to replace paper certificates with electronic messages sent to the importing country to confirm their requirements, including low or tariff-free entry for particular markets. The E-cert system provides a quicker and more efficient clearance process.

Implementation of the E-cert system for Australia-United States Free Trade Agreement (AUSFTA) dairy quota management required upgrades to IT equipment and computer software. The new paperless dairy quota system came on-line in April 2008 following the completion of a six month trial. The beef quota to the US is expected to move to E-cert by mid 2009. No agreement has been reached on implementation of E-cert for the EU quotas.

REVENUE AND EXPENDITURE

Revenue

The revenue of the Quota Unit is calculated monthly and reported by financial year. In 2006/07 the Quota Unit received \$439,205 in revenue from fees:

- \$105,148 from meat quota charges
- \$334,057 from dairy quota charges

During 2007/08 the Quota Unit received \$332,034 in revenue from quota fees - a decrease from 2006/07:

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

This decrease was the result of a 34% drop in dairy quota revenue. Due to lower dairy prices in the US in the past year, exporters found more lucrative markets in other parts of the world, and the uptake of available quota to the US declined across most TRQ categories.

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 2007/08

Meat – 0.0005 cents per kilogram (50 cents per tonne)

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

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 2007/08 the Quota Unit received \$508,345 in government appropriations as part of the draw-down of these surplus funds (Table 1). The depletion of these surplus funds is expected to be completed in the financial year 2009/10.

Expenditure

Staffing expenses

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

In managing the TRQs, the Quota Unit staff do the following:

- Calculate and allocate AUSFTA and WTO quotas and advise recipients of allocations.
- Issue approvals and certificates for most meat and dairy quotas.
- Issue approvals for WTO dairy quotas.
- Monitor usage of all allocated meat and dairy quotas and unallocated AUSFTA quotas.
- 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.
- Monitor quota allocation transfers, recall and reallocate quota entitlements.
- Obtain preferred importer details from WTO dairy quota holders and advise the United States Department of Agriculture of designated importers.
- 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.

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 and completely replaced QUASAR as the IT system for dairy in July 2008. To ensure no disruption to industry, the new processing system, DAISY, was run in parallel with QUASAR during the change-over from April - July 2008 and went live in July 2008 with the capital cost of approximately \$250,000 to be amortised over 5 years.

Incorporating the dairy quota into the new system will lead to substantial reductions in support expenditure and other cost efficiencies. While IT support costs increased over the changeover period when two systems were in operation simultaneously, these costs were reduced during 2007/08, but will increase in 2008/09 as the depreciation costs of DAISY are factored in over the next five years.

Corporate Costs

DAFF has made a change to the way in which departmental corporate costs (e.g. corporate financial services, human resource services, accommodation, security etc.) are allocated across business units, which has affected these costs for 2007/08. For cost recovered functions such as quota administration, corporate cost allocations are now based on revenues received for the year, whereas previously they were costed on a flat fee per business unit.

Government appropriations received for meat quota administration, as detailed above, relate to over-collections in previous years' revenues and therefore are not taken into account when calculating corporate costs for meat quota administration. Once the draw-down of the over-collection for the meat quota is completed, corporate costs for meat and dairy quotas will more accurately reflect the total revenue received for each from fees paid.

Meat Quota Revenue and Expenses

Government appropriations account for more than 70% of the revenue of the Meat Business Unit. As discussed above, these appropriations come from surplus revenue collected in 2003. At the end of 2008/09 there is expected to be \$418,831 remaining. Because over \$500,000 in government appropriations has been paid each year for meat quota operations it is expected that meat quota fees will need to be increased to avoid operating at a substantial loss from approximately 2010/11.

Table 1

Meat Quota	2006/07	2007/08	2008/09 Budget
Opening balance (operating account)	186,029	135,641	40,425
Opening balance (gov appropriation account)	1,933,751	1,446,215	938,831
Revenue			
Gov Appropriation	527,000	508,345	520,000
revenue from fees	105,148	111,792	165,870
Total Revenue	632,148	620,137	685,870
Expenses			
Staffing Expenses	222,121	224,904	189,921
Consultants			4,000
IT Comms and Office Equipment	193,528	222,895	190,999
General Office Supplies	3,893	1,647	2,838
Temp Staff			1,610
Communications General	230	230	
Legal Services	-4643 ¹	-161 ¹	47
Corporate Costs	29,603	25,232 ²	14,954 ³
Travel	9	2,613	1,275
Other Administrative	47	245	0
Governance			200
Publications			530
Depreciation	237,748	237,748	237,748
Total Expenses	682,536	715,353	644,122
NET SURPLUS/DEFICIT	-50,388	-95,216	41,748
Closing balance (operating account)	135,641	-40,425	82,173
Closing balance (gov appropriation account)	1,446,215	938,831	418,831

¹ Credit resulting from an over-charge of legal services in 2005/06.

² Corporate costs for 2007/08 for the Quota Unit were split proportionately to revenue received from fees paid for meat and dairy quota in 2007/08

³ Corporate costs for 2008/09 for the Quota Unit have been split proportionately to anticipated revenue from fees paid for meat and dairy quota during 2008/09

Dairy Quota Revenue and Expenses

The dairy quota account is expected to contain a surplus of \$112,594 at the end of 2008/09. This balance provides security as normal operations will be able to continue even if revenue is not received over several consecutive months during the financial year.

In 2006/07, the new IT system for dairy quotas, DAISY, was being developed and run in parallel with the old system, QASAR. This explains why IT Comms and Office Equipment costs in 2006/07 are higher than in 2007/08. The depreciation costs for DAISY system began in 2008/09 and will be amortised over 5 years. The final payment for support for the QASAR system was paid on 4 September 2008 (Table 2).

Table 2

Dairy Quota	2006/07	2007/08	2008/09 Budget
Opening balance	0	48,457	112,594
Revenue			
Revenue from fees	334,057	220,242	251,279
Expenses			
Staffing Expenses	57,789	65,473	72,028
Consultants			6,000
IT Comms and Office Equipment	197,130	51,613	98,278
Other Admin	441		2,000
General Office Supplies	387	22	2,749
Communications General		230	
Corporate Costs	29,603	38,301 ¹	26,704 ²
Publications	230		530
Travel	20	466	
Depreciation			42,990
Total Expenses	285,600	156,105	251,279
NET SURPLUS/DEFICIT	48,457	64,137	0
Closing balance	48,457	112,594	112,594

¹ Corporate costs for 2007/08 for the Quota Unit were split proportionately to revenue received from fees paid for meat and dairy quota in 2007/08

² Corporate costs for 2008/09 for the Quota Unit have been split proportionately to anticipated revenue from fees paid for meat and dairy quota during 2008/09

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)*	EU Sheepmeat and Goatmeat	US Beef
Total Quota (Kgs) 2008	7,150,000	18,786,000	398,214,000**
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%	100%	56%
% Shipped 2006	100%	100%	78%
% Shipped 2007	100%	100%	75%
% Shipped 2009 (as at 18 Feb)	82%	23%	16%

* EU high quality beef is the only quota administered by financial year therefore 2007 refers to 2007/08 financial year, 2006 refers to 2006/07 and % shipped 2009 to 18 Feb represents the current 2008/09 financial year.

** The US Beef quota volume has increased to 403,214,000 kgs 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	500,000
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	500,000
% Shipped 2008	99%	100%	65%	46%	22%	0%
% Shipped 2006	100%	99%	72%	46%	86%	24%
% Shipped 2007	100%	100%	81%	40%	63%	0%
% Shipped 2009 (as at 18 Feb)	0%	0%	38%	30%	0%	0%

AUSFTA Dairy Quotas include 11 allocated quotas and three unallocated quotas. 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. There are early indications that a similar usage pattern will occur 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**	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 Feb 2009)	1%	21%	0%	11%	28%	0%	0%	0%	0%	1%	0%	5%	0%	0%

** 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

On 2 April 2008, the Hon. Tony Burke MP, Minister for Agriculture, Fisheries and Forestry, announced an independent review of AUSFTA and WTO dairy TRQ management. The review panel was asked to examine administrative arrangements for all the EU and USA dairy quotas managed by Australia, and to identify improvements. The panel consulted widely in its deliberations and invited all interested parties to lodge submissions addressing the terms of reference in developing its report. The panel provided its report to Minister Burke on 6 June 2008.

The panel's report makes a series of recommendations to improve dairy quota administration. Minister Burke has agreed to implement the report's major recommendations, including introducing a new dairy quota allocation model based on rolling averages of export performance data, to replace the current dairy allocation model which is based on fixed historical export data.

Work has begun to implement the panel's recommendations in time for the 2010 quota year, including the formation of an industry-government implementation working group to provide further advice to Minister Burke on the details of the new model and to resolve technical implementation matters.

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.

The new dairy quota allocation model will involve the introduction of an annual application process for eligible applicants 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, will be 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 about the new application process will be provided as it becomes available.

PREDICTIONS AND EVALUATION

Revenue from meat and dairy TRQs was lower in 2007/08 than 2006/07. The Australian Bureau of Agricultural and Resource Economics (ABARE) forecasts that the depreciation of the Australian dollar will make Australian beef and dairy products more competitive in global markets, but that this will be dampened by negative or slower economic growth in many countries due to the current global financial crisis.

ABARE forecasts an increase in Australian beef and veal exports and growth in global demand for dairy products. It is therefore anticipated that patterns of quota usage/revenue for beef and dairy will remain steady over the medium term despite significant uncertainties surrounding the World's economic outlook at this time.

At this juncture, revenue and expenditure for meat and dairy correlate closely as shown in Tables 1 and 2. At the completion of 2008/09 the meat and dairy quota accounts are expected to have closing balances of \$82,173 and \$112,594 respectively.

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 will commence shortly.

FURTHER INFORMATION

Requests for further information should be directed to:

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