

**Briefing Note**

**Agricultural Commodities**

**June 2014**

**Stefanie Schulte**  
Economic Policy Analyst

## Introduction

This Briefing Note is a summary of the Australian Department of Agriculture, Fisheries and Forestry (ABARES) "Agricultural Commodities" June 2014 quarter report. It provides an overview of those sections relevant to irrigated agriculture.

This Briefing Note does not seek to independently verify the data contained within it. All data presented is reproduced from the ABARES publication. This Briefing Note does not in any way constitute advice, it is provided solely as a service.

**The full ABARES December quarter report is available under;**

[http://data.daff.gov.au/data/warehouse/agcomd9abcc004/agcomd9abcc004201406/AgCommodities2014.No2\\_Ver1.0.0.pdf](http://data.daff.gov.au/data/warehouse/agcomd9abcc004/agcomd9abcc004201406/AgCommodities2014.No2_Ver1.0.0.pdf)

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## Global Economic Outlook

- Following growth of 3 per cent in 2013, world economic growth is assumed to rise gradually to 3.3 per cent in 2014 and 3.7 per cent in 2015.
- Economic growth in OECD economies is expected to strengthen as the economic recovery gathers pace in the United States and Europe.
- Developing countries continue to contribute most to world economic growth, but the outlook has weakened over the past year as a result of inflationary pressure or supply-side constraints in some countries.
- Economic growth in China is assumed to moderate, as structural reforms are implemented.

## Australia's Economic Outlook

- **GDP**

Economic growth remained below trend in Australia in the first half of 2013-14, with real gross domestic product increasing at a year-on-year rate of 3.5 per cent, compared with 2.7 per cent in the December quarter.

- **Inflation**

CPI rose by 2.9 per cent year-on-year in the March quarter 2014, compared with 2.7 per cent in the December quarter 2013. Increased inflation reflects the higher cost of imports associated with a decline in value of the AUD. The inflation rate in Australia is assumed to average 2.7 per cent in 2013-14 and 2014-15.

- **Exchange Rate**

Movements in the value of the AUD were volatile in 2013-14. The AUD is expected to average around US92 cents in 2013-14 compared with US103 in 2012-13. Mineral resource prices on world markets have continued to weaken over the past year, placing downward pressure on the value of the AUD.

- **Interest Rate**

The current cash rate is 2.5 per cent.

## **Australian agricultural export figures**

The total value of farm production is forecast to decrease by 4.6 per cent in 2014-15, following an estimated increase of 6.0 per cent in 2013-14. The forecast decline in 2014-15 reflects expected falls in crop and livestock production from the estimated record high in 2013-14.

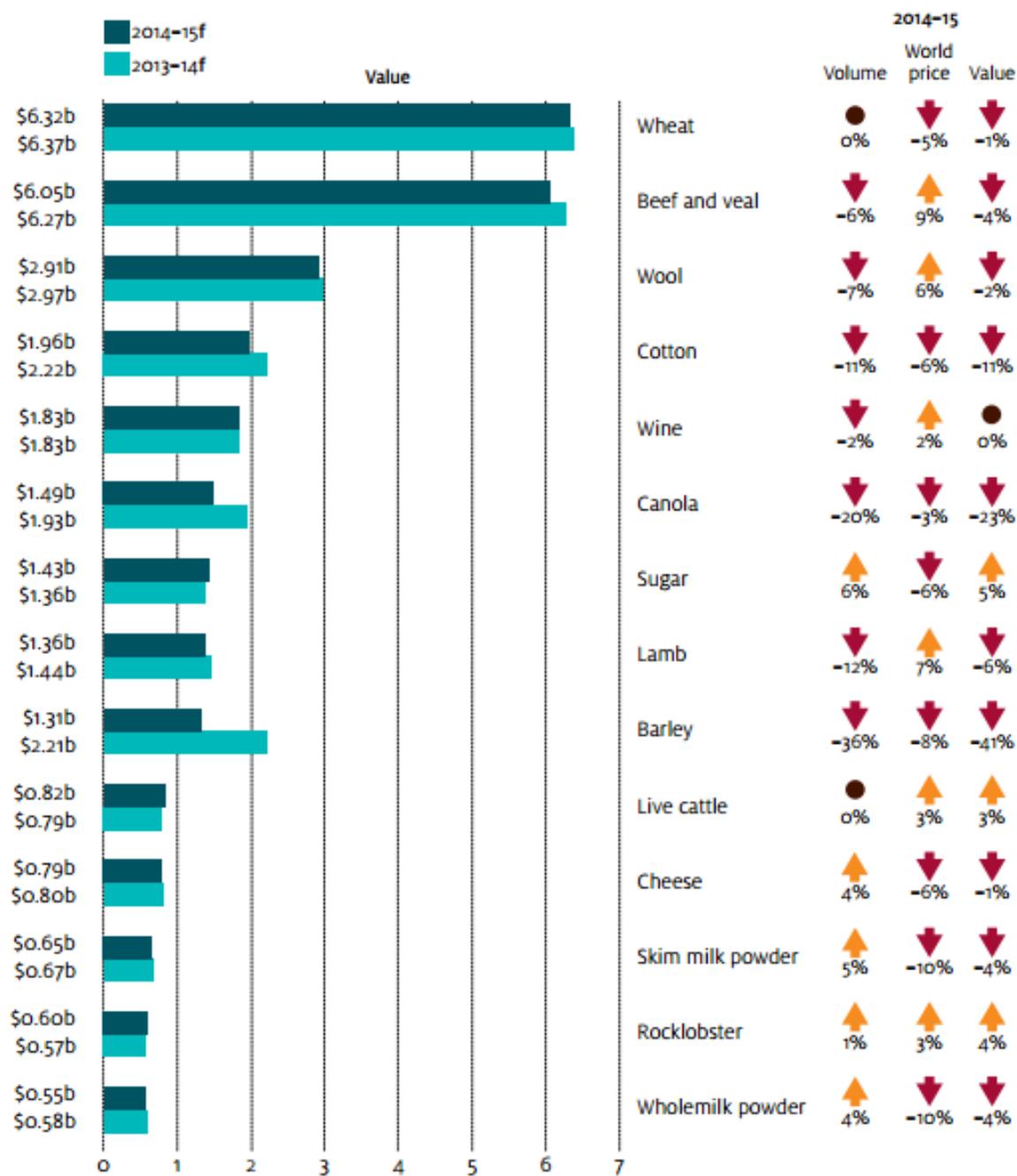
Higher export prices in 2014-15 for beef, wool and sheep meat are expected to be offset by lower prices for wheat, cotton, barley and sugar.

Earnings from farm export are forecast to fall by 6.2 per cent in 2014-15 to around \$38.5 billion. The forecast fall in farm export earnings largely reflects expected falls in the export earnings of barley (down 41 per cent), canola (23 per cent), beef and veal (4 per cent), rice (32 per cent), horticulture (13 per cent). However export earnings are forecast to increase for sugar (up 5 per cent), live cattle (3 per cent) and live sheep (24 per cent).

Export earnings for crops are forecast to be around \$20.4 billion in 2014-15, compared with an estimated \$22.6 billion in 2013-14. The export value of livestock and livestock products is forecast to decrease by 1.9 per cent in 2014-15 to \$18.1 billion, following an estimated increase of 23.3 per cent to 18.4 billion in 2013-14.

## Major Australian agricultural commodity exports

Major Australian agricultural commodity exports a



a Wheat, cotton, sugar, canola, cheese, skim milk powder and whole milk powder are world indicator prices in US\$. All other commodities are export unit returns or domestic prices in A\$. Annual export values do not necessarily reflect variations in export volumes, world prices and exchange rates. f ABARES forecast.

## Grains

- Wheat (global)

The world wheat indicator price (US no. 2 hard red winter, fob Gulf) is forecast to average US \$300 a tonne in 2014-15, compared with US\$317 a tonne in 2013-14.

Total wheat supply is forecast to remain high in 2014-15, with expected higher opening world stocks more than offsetting forecast lower production.

World wheat production is forecast to decline by 2 per cent in 2014-15 to 696 million tonnes, driven by an expected fall in yields in major producing regions.

World consumption of wheat is forecast to be largely unchanged in 2014-15 at 695 million tonnes.

World wheat trade is forecast to decline by 4 per cent in 2014-15, largely reflecting an expected reduction in imports by China.

Ukraine is a major world producer and exporter of grains (wheat, barley and corn). Any significant disruption to shipments from Ukraine would be likely to place upward pressure on world grain prices.

- Wheat (Australia)

Australian wheat production is forecast to decrease by 9 per cent in 2014-15 to around 25 million tonnes. If realised, forecast production would be around the five-year average to 2012-13.

The forecast fall in wheat production in 2014-15 is driven by an assumed return to around average yields in WA and SA, following above average yields last season. However, the area planted to wheat is forecast to increase in all states in 2014-15, leading to a 2 per cent increase nationally. The forecast increase in planted area reflects expected favourable gross margins from growing wheat compared with production alternatives.

Seasonal conditions have been generally favourable for planting in 2014-15 wheat crops in WA, SA, VIC and southern and central NSW. However, seasonal conditions in most of northern NSW and QLD have been less favourable, with low soil moisture levels in some regions.

The BOM's latest seasonal outlook for June to August suggests a drier than average winter for much of southern Australia. Sufficient and timely rainfall over winter will be critical to crop development, particularly where soil moisture levels are low. Yields are likely to be lower than assumed is sufficient and timely rainfall is not received during crop growth.

The volume of Australian wheat exports is forecast to be largely unchanged in 2014-15 at around 19 million tonnes. High carry-over stocks from 2013-14 are expected to offset the forecast decline in production, with a significant quantity of wheat harvested in the 2013-14 season expected to be exported in 2014-15.

## Outlook for wheat

|                        |         | 2012–13 | 2013–14 f | 2014–15 f | % change |
|------------------------|---------|---------|-----------|-----------|----------|
| <b>World</b>           |         |         |           |           |          |
| Production             | Mt      | 655     | 712       | 696       | -2.2     |
| – China                | Mt      | 121     | 122       | 121       | -0.2     |
| – European Union       | Mt      | 132     | 142       | 144       | 1.6      |
| – India                | Mt      | 95      | 94        | 95        | 1.6      |
| – Russian Federation   | Mt      | 38      | 52        | 52        | -1.1     |
| – United States        | Mt      | 62      | 58        | 53        | -7.8     |
| Consumption            | Mt      | 675     | 692       | 695       | 0.3      |
| – human                | Mt      | 466     | 474       | 480       | 1.3      |
| – feed                 | Mt      | 133     | 131       | 131       | -0.4     |
| Closing stocks         | Mt      | 173     | 192       | 193       | 0.5      |
| Stocks-to-use ratio    | %       | 26      | 28        | 28        |          |
| Trade                  | Mt      | 140     | 154       | 148       | -4.0     |
| Exports a              |         |         |           |           |          |
| – Argentina            | Mt      | 4       | 3         | 7         | 164.2    |
| – Australia b          | Mt      | 21      | 19        | 19        | -0.2     |
| – Canada               | Mt      | 19      | 22        | 22        | 0.1      |
| – European Union       | Mt      | 23      | 31        | 27        | -12.4    |
| – Kazakhstan           | Mt      | 7       | 7         | 8         | 7.1      |
| – Russian Federation   | Mt      | 11      | 18        | 18        | -0.0     |
| – Ukraine              | Mt      | 7       | 10        | 8         | -15.8    |
| – United States        | Mt      | 27      | 32        | 26        | -19.8    |
| Price c                | US\$/t  | 348     | 317       | 300       | -5.5     |
| <b>Australia</b>       |         |         |           |           |          |
| Area                   | '000 ha | 12 979  | 13 512    | 13 837    | 2.4      |
| Production             | kt      | 22 856  | 27 013    | 24 588    | -9.0     |
| Exports b              | kt      | 21 265  | 18 689    | 18 657    | -0.2     |
| – value                | A\$m    | 6 776   | 6 367     | 6 325     | -0.7     |
| APW 10 net pool return | A\$/t   | 326     | 336       | 323       | -3.9     |

a Local marketing years. b July–June years. c US no. 2 hard red winter wheat fob Gulf, July–June.  
f ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics

- Coarse Grains (global)

Coarse grains prices are forecast to fall moderately in 2014-15 to because of higher world supplies. The world coarse grain indicator price (US no.2 yellow corn, fob Gulf) is forecast to fall by 5 per cent in 2014-15 to average US \$210 a tonne. The world indicator price for barley (France feed barley, fob Rouen) is forecast to fall by 5 per cent to average US\$230 a tonne.

World coarse grains production is forecast to decrease by 2 per cent in 2014-15 to 1.24 billion tonnes, reflecting a forecast 1 per cent fall in total area harvested and lower yields. Production of both corn and barley is expected to fall. World corn production is forecast to decrease by 1 per cent in 2014-15 to 971 million tonnes, driven by a fall in production in the US, Ukraine and China. World barley production is forecast to fall by 8 per cent in 2014-15 to 132 million tonnes. This forecast fall is largely the result of a return to average yields from the well above average yields achieved in several major producing countries in 2013-14.

World consumption of coarse grains is forecast to increase by 1 per cent in 2014-15 to 1.24 billion tonnes. World corn consumption is forecast to rise by 2 per cent in 2014-15 to 970 million tonnes, driven by a forecast 3 per cent increase in use of corn for feed. World barley consumption is forecast to fall by 1 per cent in 2014-15 to around 139 million tonnes.

High carry-over stocks are expected to lead to a forecast rise of 1 per cent in world supplies of coarse grains in 2014-15. This is driven by an expected increase in the US and Argentina.

World trade in coarse grains is forecast to fall by 7 per cent in 2014-15 to 141 million tonnes, largely reflecting an expected decline in demand from several import markets with large carry-over stocks from 20-13-14.

World import demand for coarse grains is forecast to fall in 2014-15.

- Coarse Grains (Australia)

Australian coarse grains production is forecast to decline by 13 per cent in 2014-15 to 11 million tonnes. Although the season opening for winter grains has been favourable in most major growing regions, sufficient and timely rainfall will be critical over winter to realise forecast production.

Barley production is forecast to fall by 22 per cent in 2014-15 to 7.5 million tonnes. This reflects an expected fall in the area planted to barley and an assumed decline in the average yield. The area planted to barley is forecast to decline largely as a result of more area being planted to wheat and canola.

Grain sorghum production is estimated to have fallen by 50 per cent in 2013-14 to 1.1 million tonnes, the lowest level since 1997-98. This reflects an estimated 35 per cent fall in the average yield and a 24 per cent fall in planted area. Grain quality was also adversely affected by unfavourable seasonal conditions throughout the growing season.

The volume of coarse grain export is forecast to fall by 35 per cent i 2014-15 to 5.2 million tonnes. This forecast all largely reflects an expected 36 per cent decline in barley exports to 4.6 million tonnes because of forecast lower barley production. The value of coarse grain exports is forecast to fall by 41 per cent in 2014-15 o \$1.5 billion, reflecting the effects of lower export shipments and prices. The value of barley exports is forecast to decline by 41 per cent to \$1.3 billion.

## Outlook for coarse grains

|                        | unit    | 2012–13 | 2013–14 f | 2014–15 f | % change |
|------------------------|---------|---------|-----------|-----------|----------|
| <b>World</b>           |         |         |           |           |          |
| Production             | Mt      | 1 131   | 1 267     | 1 240     | -2.1     |
| – barley               | Mt      | 130     | 144       | 132       | -8.3     |
| – corn                 | Mt      | 863     | 977       | 971       | -0.6     |
| Consumption            | Mt      | 1 140   | 1 232     | 1 243     | 0.9      |
| Trade                  | Mt      | 118     | 151       | 141       | -6.6     |
| Closing stocks         | Mt      | 165     | 200       | 197       | -1.5     |
| Stocks-to-use ratio    | %       | 14      | 16        | 16        |          |
| Corn price a           |         |         |           |           |          |
| (fob Gulf, Jul–Jun)    | US\$/t  | 312     | 220       | 210       | -4.5     |
| Barley price b         |         |         |           |           |          |
| (fob Rouen, Jul–Jun)   | US\$/t  | 296     | 242       | 230       | -5.0     |
| <b>Australia</b>       |         |         |           |           |          |
| Area                   | '000 ha | 5 199   | 5 366     | 5 292     | -1.4     |
| – barley               | '000 ha | 3 644   | 3 920     | 3 758     | -4.1     |
| – grain sorghum        | '000 ha | 648     | 493       | 587       | 19.1     |
| Production             | kt      | 11 500  | 12 576    | 11 001    | -12.5    |
| – barley               | kt      | 7 472   | 9 545     | 7 462     | -21.8    |
| – grain sorghum        | kt      | 2 230   | 1 107     | 1 776     | 60.4     |
| Exports                | kt      | 6 762   | 8 106     | 5 235     | -35.4    |
| – value                | A\$m    | 2 101   | 2 543     | 1 496     | -41.2    |
| Feed barley price c    | A\$/t   | 244     | 231       | 214       | -7.4     |
| Malting barley price d | A\$/t   | 255     | 249       | 238       | -4.4     |

a US no. 2 yellow corn July–June. b France feed barley, fob Rouen July–June. c Feed 1, delivered Geelong. d Gairdner Malt 1, delivered Geelong. f ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics; United Nations Commodity Trade Statistics Database (UN Comtrade); United States Department of Agriculture

## Oilseeds

World oilseeds and canola indicator prices are forecast to fall in 2014-15. World oilseeds indicator price (US soybeans, fob Gulf) is forecast to fall by 9 per cent in 2014-15 to US\$500 a tonne, driven by expected record high production of soybeans and a significant increase in stocks. The world canola indicator price is forecast to decline by 3 per cent in 2014-15 to US\$510 a tonne.

Record high world production of soybeans (296 million tonnes) is forecast, which is driven by forecast increase in planted area and an expected increase in yields in many growing regions. In contrast, production of canola (67 million tonnes) and sunflower seed is forecast to decline.

World use of oilseeds is forecast to rise by 3 per cent in 2014-15 to 501 million tonnes, as crush and food uses of oilseeds rise.

Chinese demand for oilseeds is forecast to drive world trade.

- Oilseeds (Australia)

Australian canola production is forecast to fall by 8 per cent in 2014-15 to just under 3.5 million tonnes, reflecting an assumed fall in the average yield. Yields in WA, SA and VIC are assumed to fall from the above average yields achieved in 2013-14. A forecast 3 per cent increase in the area planted to 2.7 million hectares is expected to partially offset the assumed fall in the average yield. The area planted to canola is forecast to increase in all major producing states, reflecting a favourable start to the winter cropping season and expected favourable gross margins from growing canola.

Australian canola exports are forecast to decline by 20 per cent in 2014-15 to 2.6 million tonnes. This forecast decline partly reflects an expected fall in the supply of Australian canola for exports in the second half of 2014. Strong international demand for Australian canola led to a higher proportion of the 2013-14 canola crop being exported in the first half of 2014. For 2014-15 as a whole, the value of canola exports is forecast to fall by 23 per cent to \$1.5 billion, reflecting forecast declines in the export price and the volume exported.

In the first 10 months of 2013-14, China accounted for 30 per cent of total Australian canola exports. Strong demand for Australian canola also came from the EU.

## Outlook for oilseeds

|                                   | unit   | 2012–13 | 2013–14 f | 2014–15 f | % change |
|-----------------------------------|--------|---------|-----------|-----------|----------|
| <b>World</b>                      |        |         |           |           |          |
| Production                        | Mt     | 474     | 500       | 507       | 1.4      |
| Consumption                       | Mt     | 467     | 489       | 501       | 2.5      |
| – oilseed meal                    | Mt     | 260     | 276       | 287       | 4.0      |
| – vegetable oil                   | Mt     | 158     | 167       | 175       | 4.8      |
| Exports                           | Mt     | 117     | 131       | 133       | 1.5      |
| Closing stocks                    | Mt     | 69      | 80        | 86        | 7.5      |
| Stocks-to-use ratio               | %      | 15      | 16        | 17        |          |
| Soybeans indicator price <b>a</b> | US\$/t | 597     | 549       | 500       | –8.9     |
| Canola indicator price <b>b</b>   | US\$/t | 628     | 523       | 510       | –2.5     |
| <b>Australia</b>                  |        |         |           |           |          |
| Total production                  | kt     | 5 752   | 5 176     | 4 806     | –7.1     |
| – winter                          | kt     | 4 155   | 3 775     | 3 485     | –7.7     |
| – summer                          | kt     | 1 597   | 1 401     | 1 321     | –5.7     |
| <b>Canola</b>                     |        |         |           |           |          |
| Production                        | kt     | 4 142   | 3 760     | 3 471     | –7.7     |
| Exports <b>c</b>                  | kt     | 3 488   | 3 196     | 2 564     | –19.8    |
| – value                           | A\$m   | 2 094   | 1 935     | 1 490     | –23.0    |
| <b>Price <b>c</b></b>             |        |         |           |           |          |
| (delivered Melbourne)             | A\$/t  | 560     | 531       | 520       | –2.1     |

**a** Soybeans, US, fob Gulf, July–June. **b** Rapeseed, Europe, fob Hamburg, July–June.

**c** July–June years. **f** ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics; ISTA Mielke GmbH, *Oil World*, Hamburg; United States Department of Agriculture

## Cotton

The world cotton indicator price (Cotlook 'A' index) is forecast to fall by around 6 per cent in 2014-15 to average US85 cents a pound. This reflects forecast higher world production (excluding China) and record world stocks.

World cotton production is forecast to be 25.3 million tonnes in 2014-15, compared with an estimated 25.6 million tonnes in 2013-14. Higher cotton production is forecast for the US, Brazil and Pakistan in 2014-15. Chinese cotton production is forecast to be the lowest in nine years in response to expected changes in government policy.

World cotton consumption is forecast to be 24.4 million tonnes in 2014-15, 2.5 per cent lower than in 2013-14. This modest increase largely reflects a combination of forecast lower world prices and strengthening demand, resulting from an assumed recovery of the world economy and income growth in developing countries, particularly India, Pakistan, Bangladesh, Turkey and Brazil.

World closing stocks of cotton are forecast to increase by 4 per cent in 2014-15 to a record 22.2 million tonnes, equivalent to almost 11 months of world mill use.

World cotton exports are forecast at 8.1 million tonnes in 2014-15, around 4 per cent lower than in 2013-14. This forecast decline reflects expected higher domestic consumption in major exporting countries, particularly India, and lower Chinese import demand.

- Cotton (Australia)

Harvesting of the Australian cotton crop is largely finished for 2013-14. Cotton planting was limited to irrigated cotton areas in 2013-14, reflecting dry seasonal conditions and low soil moisture profiles that discouraged planting in dryland areas. Despite the fall in planted area, cotton production is estimated to be around 910 000 tonnes.

In 2014-15 Australian cotton production is forecast to decline by around 10 per cent to 820 000 tonnes. This reflects forecast falls in planted area and average yield as a result of an expected decline in irrigated water availability, following three years of plentiful water supplies. The production forecast, if realised, would be the lowest in five years but still well above the 10 year average to 2009-10 of 465 000 tonnes.

The average storage level of public irrigation dams serving the Australian cotton growing region was 48 per cent of capacity on 13 May 2014, down from 95 per cent at the same time in 2012 but well above the 10-year average to 2010 of 29 per cent. Seasonal inflows into the main cotton irrigation dams can be expected between now and the end of the cotton planting window (September to mid November 2014). Similarly, soil moisture profiles can be expected to improve, which could enable a recovery of plantings in dryland areas.

The return to Australian cotton growers at the gin-gate is forecast to decline by 2 per cent in 2014-15 to \$492 a bale of lint, largely reflecting forecast lower world cotton prices. The forecast return to cotton growers is lower than the average of the

10 years to 2012-13 of \$537 a bale but still favourable when compared with returns for production alternatives.

The forward cash price of lint offered to Australian cotton growers at 12 May 2014 was \$485 a bale for 2014 delivery (2014-15 crop) and \$475 a bale for 2015 delivery.

Australian cotton exports are forecast to decline by 11 per cent in 2014-15 to 870 000 tonnes, reflecting lower cotton production in 2013-14 and 2014-15. Almost all Australian cotton production is exported. The typical March to June harvest period means that Australian cotton production in one financial year is exported across two financial years. Australia is expected to maintain its position as the world's third largest cotton exporter in 2014-15, behind the US and India.

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## Outlook for cotton

|                     | unit    | 2012-13 | 2013-14 f | 2014-15 f | % change |
|---------------------|---------|---------|-----------|-----------|----------|
| <b>World a</b>      |         |         |           |           |          |
| Production          | Mt      | 26.8    | 25.6      | 25.3      | -1.2     |
| Consumption         | Mt      | 23.2    | 23.8      | 24.4      | 2.5      |
| Exports             | Mt      | 10.2    | 8.4       | 8.1       | -3.6     |
| Closing stocks      | Mt      | 19.2    | 21.3      | 22.2      | 4.2      |
| Stocks-to-use ratio | %       | 82.5    | 89.5      | 90.7      |          |
| Cotlook 'A' index   | USc/lb  | 87.9    | 90.0      | 85.0      | -5.6     |
| <b>Australia b</b>  |         |         |           |           |          |
| Area harvested      | '000 ha | 442     | 392       | 375       | -4.3     |
| Lint production     | kt      | 1 018   | 910       | 820       | -9.9     |
| Exports             | kt      | 1 305   | 974       | 870       | -10.7    |
| - value             | A\$m    | 2 695   | 2 217     | 1 964     | -11.4    |

a August-July years. b July-June years. f ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics; United States Department of Agriculture

## Dairy

World Dairy product prices are forecast to decline by between 4 per cent and 10 per cent in 2014-15 but to remain favourable compared with historical averages.

The world price of cheese is forecast to fall by 6 per cent to average US\$ 4500 a tonne in 2014-15. For both whole milk powder and skim milk powder, world prices are forecast to decline by 10 per cent to average US\$ 4385 a tonne and US\$ 4270 a tonne, respectively. The world price for butter is forecast to decline by 4 per cent to average US\$ 4345.

Milk production in the main dairy exporting countries is forecast to increase in 2014-15 in response to favourable farmgate prices, improved milk yields and small expansions in dairy herds.

World trade in dairy products is expected to continue to increase in 2014-15, underpinned by rising import demand in Asia and North Africa

- Dairy (Australia)

The Australian farmgate milk price is forecast to fall by 5 per cent in 2014-15 to average around 47.5 cents a litre, reflecting the effect of forecast lower world dairy product prices. In 2013-14 the Australian farmgate milk price is estimated to have increased by 24 per cent to average around 50 cents a litre.

National milk production is forecast to increase by 2 per cent in 2014-15 to 9.3 billion litres, following an estimated 1 per cent fall in 2013-14, the result of lingering effects of adverse seasonal conditions in 2012-13. A downside risk to this forecast is poorer seasonal conditions than assumed, particularly in southern Australia. The BOM has indicated at least a 70 per cent chance of an El Niño event developing later in 2014.

Milk production in VIC is estimated to have declined by less than 1 per cent in 2013-14. However, milk production patterns have not been uniform across the state. Production in eastern VIC is estimated to have risen by around 2 per cent, while production in northern VIC is estimated to have increased by 1 per cent. In contrast, in western VIC a 2 per cent decline in milk production is estimated. In other states, milk production is estimated to have increased by 4 per cent and to have declined in NSW (4 per cent).

The total value of Australian dairy exports in 2014-15 is forecast to decline by around 3 per cent to \$2.7 billion. In 2013-14 the total value of Australian dairy exports is estimated to have increased by 24 per cent, with significant increases in the value of whole milk powder, skim milk powder and butter exports, reflecting higher world dairy product prices. Volumes of butter, cheese and skim milk powder exports are estimated to have declined in 2013-14, reflecting reduced production of dairy products because of lower milk deliveries.

In April 2014 the Australian Government announced the signing of the Korea-Australia Free Trade Agreement. Under the agreement, tariffs on imports of Australian cheese will be phased out over different periods (up to 20 years),

depending on the type of cheese. The agreement includes duty-free import quota for Australian cheese. Reductions in tariffs and establishment of the duty-free import quota are expected to take effect in the second half of 2014-15.

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### Outlook for dairy

|                      | unit   | 2012-13 | 2013-14 f | 2014-15 f | % change |
|----------------------|--------|---------|-----------|-----------|----------|
| <b>Australia</b>     |        |         |           |           |          |
| Cow numbers <b>a</b> | '000   | 1 688   | 1 705     | 1 708     | 0.2      |
| Milk yields          | L/cow  | 5 450   | 5 355     | 5 445     | 1.7      |
| <b>Production</b>    |        |         |           |           |          |
| Total milk           | ML     | 9 201   | 9 130     | 9 300     | 1.9      |
| – market sales       | ML     | 2 452   | 2 475     | 2 525     | 2.0      |
| – manufacturing      | ML     | 6 749   | 6 655     | 6 775     | 1.8      |
| Butter <b>b</b>      | kt     | 118     | 100       | 100       | 0.0      |
| Cheese               | kt     | 338     | 303       | 310       | 2.3      |
| Whole milk powder    | kt     | 109     | 125       | 130       | 4.0      |
| Skim milk powder     | kt     | 224     | 215       | 220       | 2.3      |
| Farmgate milk price  | Ac/L   | 40.2    | 50.0      | 47.5      | -5.0     |
| Value of exports     | A\$m   | 2 229   | 2 771     | 2 690     | -2.9     |
| <b>World prices</b>  |        |         |           |           |          |
| Butter               | US\$/t | 3 727   | 4 510     | 4 345     | -3.7     |
| Cheese               | US\$/t | 4 150   | 4 810     | 4 500     | -6.4     |
| Skim milk powder     | US\$/t | 3 731   | 4 720     | 4 270     | -9.5     |
| Whole milk powder    | US\$/t | 3 831   | 4 850     | 4 385     | -9.6     |

**a** At 30 June. **b** Includes the butter equivalent of butter oil, butter concentrate, ghee and dry butterfat. **f** ABARES forecast.

Sources: ABARES; Australian Bureau of Statistics; Dairy Australia

## Appendix

### **2014 US FARM BILL**

On 7 February 2014 the US Agricultural Act of 2014 (2014 farm bill) came into force. The US farm bill is the legislative basis for management of federal agricultural support, including agricultural producer support programmes, the food stamp programme and the administration of crop insurance. A new farm bill is passed every five to six years.

#### Key changes

The 2014 farm bill contains 12 titles, which cover different policy areas. The first title covers support for producers of programme crops: wheat, oats, barley, corn, grain, sorghum, long and medium grain rice, pulse crops, peanuts, soybeans and some other oilseeds. In contrast to the 2008 farm bill, upland cotton is no longer a programme crop and is excluded from programme crop payments, while peanuts are now formally included as a programme crop. Other titles in the farm bill cover support for the horticulture, livestock and dairy industries, as well as agricultural research, trade assistance, natural disaster assistance, regulation of crop insurance and payments of insurance premium subsidies.

An important change in the 2014 farm bill is the repeal of major agricultural subsidies for producers of programme crops, including direct payments, counter-cyclical payments, the Average Crop Revenue Election programmes have been replaced by the Price Loss Coverage and Agricultural Risk Coverage programme. This will cause a reduction in spending on direct agricultural support by US\$18.9 billion over the next 10 years.

The Dairy Product Price Program has been repealed, as has the Dairy Export Incentive Program. These programmes have been replaced by the Dairy Product Donation Program.

The 2014 farm bill expands crop insurance premium subsidies for yield insurance, crop revenue insurance and whole of farm revenue insurance. The bill introduces subsidised crop insurance products to peanuts and organic farmers. Under the 2014 farm bill, government expenditure on crop insurance is forecast to grow by US\$5.7 billion compared with the 2008 farm bill baseline, totalling US\$84.1 billion over the next 10 years.

The agricultural policies of the 2014 farm bill are projected to reduce spending on agricultural programmes by 2 per cent, compared with the budget baseline that assumes continuation of 2008 farm bill policies. This is equivalent to a decrease of \$2 billion over the five-year life of the bill. Despite these projections, budget savings over the life of the farm bill may not be realised if the 2008 farm bill is an example. Actual spending on agricultural programmes under the previous farm bill was 5 per cent higher over the life of the bill than originally projected. That increase was the result of higher than projected costs for the subsidised crop insurance programme, which more than offset the reduction in programme crop payments.