NITROGENOUS FERTILISERS SUBSIDY AMENDMENT BILL 1980

Date Introduced: 27 August 1980
House: House of Representatives

Short Digest of Bill

Purpose

To extend the Nitrogenous Fertilisers Subsidy Scheme by a further year, to 31 December 1981, at the rate of $20 per tonne of nitrogen content.

Background

Under the Nitrogenous Fertilisers Subsidy Act 1966, a subsidy equivalent to $78.74 per tonne of nitrogen content was paid on nitrogenous substances used as fertilisers or supplements to stock feed from August 1966. The subsidy was paid not only to domestic producers but also to importers, providing that the products imported could not be supplied domestically or where domestic prices were higher than the prices of non-dumped imports. The benefit was to be passed on in full to users, who in the main consisted of sugar, rice, cotton and fruit and vegetable producers and livestock industries based on improved pasture. The stated aims of the subsidy were to reduce costs in major user industries, assist users to compete in export markets, encourage the use of nitrogen in new applications and encourage local production of nitrogenous fertilisers.

The Nitrogenous Fertilisers Subsidy Scheme was the subject of a Report by the Industries Assistance Commission in September 1975. The Commission found little justification for the subsidy for several reasons. It argued that in traditional uses, the role of nitrogen was well accepted and would not change greatly in response to price changes. In other areas of use, such as wheat, cereals and livestock production, the use of nitrogen was not merely a function of price but part of the whole question of the risks involved in gaining a return on farm expenditures. It was felt that the subsidy did not offset these risk factors as efficiently as the development of better farm insurance schemes and taxation measures and might even hinder such developments.
The Commission further argued that the subsidy also did not appear to be useful as a form of income support. Even in 1975 at the rate of $78.74 per tonne, the subsidy on average accounted for only 2% of the costs of farmers using large amounts of nitrogen and 1% of the costs of the majority of nitrogen users. To the extent that income support may be warranted in some areas of agriculture, the Commission contended that the consumption of nitrogenous fertilisers is not synonymous with this need for assistance. The subsidy has virtually no effect on export prices, which for most agricultural commodities tend to reflect world supply and demand.

The Commission therefore recommended a gradual phasing out of the Scheme over a period from 1975 to 1978. The subsidy could be reduced annually to $60, $40 then $20 per tonne before being terminated. This phasing out was designed to discourage any attempt to stockpile. It would also allow farmers to organise their cash flows to allow for the subsidy reduction. This would have posed problems at that time since the price/cost ratios faced by farmers were not as high as in recent times when, as indexes prepared by the B.A.E. indicate, high export prices for many commodities have given some relief from the cost-price squeeze.

The Government announced in the 1976-77 Budget its adoption in principle of the Commission's recommendations and the subsidy is being phased out, although over a much longer period. The reduction to $60 per tonne took effect from January 1977 and to $40 per tonne from January 1979. The Nitrogenous Fertilisers Subsidy Act 1979 authorised the reduction of the subsidy to its present level of $20 per tonne as from January 1980. The present proposed extension of the subsidy for an additional year is expected to cost the Government $5.5 million.

Provisions

Clause 3 amends the Principal Act to extend the termination of the Nitrogenous Fertilisers Subsidy Scheme from 31 December 1980 to 31 December 1981.

9 September 1980

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