3

Dairy industry

Introduction

3.1 The dairy industry is a significant value-adding industry. It is Australia's third largest agricultural industry and the largest processed food export industry with exports totalling about $2.4 billion in 2000.[1]

3.2 In recent times, the industry has been subject to significant change through the impact of deregulation. Increasing globalisation has created a more highly competitive trading environment. At the same time, the international market is subject to significant market distortions through the use of subsidies and tariffs, which restrict market access and market competitiveness.

3.3 The following discussion examines the status of the dairy industry and the growth and export opportunities that exist in the short to medium term. In addition, the various impediments to growth are assessed.

Production and export status

3.4 Australia accounts for less than two per cent of world milk production but ranks third in world dairy trade accounting for 13 per cent of dairy products. The European Community (EC) accounts for 37 per cent and New Zealand 31 per cent of world dairy trade.[2]

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1 ACCC, *Impact of farmgate deregulation on the Australian milk industry: study of prices, costs and profits*, Table 4.12, p. 40.

2 ADIC, submission no. 52, p. 3.

3.5 In 1999 farm milk production valued at about $3 billion was converted into ex-factory product worth about $7.5 billion. Australia’s dairy exports in 1999 were about $2.2 billion.[3] The Australian Dairy Industry Council (ADIC) stated:

> This level and proportion of value-adding far exceeds the ex-factory value of the wool (approximately $3.0bn), beef (less than $6.0 billion), wheat (just over $6.0 billion) or sugar (approximately $2.5 billion) industries. The proportion of exports that are value added and highly-value added also far exceeds that of any other food crop.[4]

3.6 The principal export dairy products in both value and volume terms are skim milk powder, cheese, butter and wholemilk powder. The principal destination for Australian dairy exports is the Asian region, which accounts for around 80 per cent of total exports. Exports to Japan make up the largest export destination ‘taking around 46 per cent of total Australian cheese exports and 13 per cent of skim milk powder exports in 1997-98’. The other key Asian countries which consume Australian dairy products include the Philippines, Malaysia, Singapore and Thailand.[5]

3.7 During the past twenty years, rationalisation of the dairy industry has resulted in fewer farms and increased productivity. Table 3.1 shows some of the key changes in the dairy industry during the past twenty years.

Table 3.1 Key changes in the Australian dairy industry during the past 20 years

	1976	1986	1996	1999
farm numbers	29 199	18 496	13 888	13 156
average herd size	–	96	136	161
milk yield (litres/cow)	2 533	3 416	4 616	4 867
value of exports ($m)	–	427	1 692	2 173
milk output (millions of litres)	6 248	6 038	8 716	10 178

Source AFFA submission no 34.2, p. 32.

3.8 Table 3.1 shows the decline in farm numbers from about 29 000 in 1976 to about 13 000 in 1999. At the same time, milk yields have almost doubled ‘reflecting improvements in farm productivity through the

3 ibid., p. 3.

4 ibid., p. 3.

5 AFFA, submission no. 34.2, p. 33.

uptake of new technologies and better farm management practices'.[6] The Department of Agriculture, Fisheries and Forestry – Australia (AFFA) commented that the 'adoption of animal health programs, supplementary feeding, herd breeding programs, improved irrigation techniques, soil testing and pasture management have all contributed to higher production per cow'.[7]

3.9 There are 18 major firms that manufacture dairy products. Most of these are producer-owned cooperatives. The five largest cooperatives account for around 70 per cent of Australia's milk production. Within the domestic market, the major firms include Murray Goulburn, Bonlac, the Dairyfarmers Group, National Foods Ltd and Parmalat. The main exporters are Murray Goulburn and Bonlac.[8]

Value-adding opportunities

3.10 Evidence to the inquiry suggested that value-adding opportunities in the dairy industry will continue to grow. This is mainly a result of projected export growth. The ADIC commented that the 'rate of growth that we have seen in this industry for well over a decade—four to five per cent in production and output—is consistent with the rate of value added growth only to the extent that our final prices are rising'.[9] AFFA suggested that diversification was leading to the development of new products. AFFA stated:

> The dairy industry has identified the need for diversification to increase sales of milk-based products. As a result, R&D undertaken by value adders has been focussed on the development of a broad range of new products covering an increasing number of market segments. Additionally, through scientific advancements, raw milk is being broken down into component parts, thereby enabling the dairy industry to branch into a variety of non-traditional markets such as pharmaceutical products and sport dietary additives.[10]

6 ibid., p. 32.

7 ibid., p. 32.

8 ibid., pp. 32-33.

9 Mr Peter Gallagher, ADIC, transcript of evidence, p. 217.

10 AFFA, submission no. 34.2, p. 22.

3.11 In addition, AFFA suggested that quality assurance programs have been an important factor in ‘maintaining and growing market share in an increasingly competitive global market’.[11]

3.12 The OUTLOOK 2001 conference heard that the biggest challenge for the dairy industry is to maintain export growth. In recent times this growth has mainly been based on the Asian market and ‘it seems likely that the Asian region will remain the focus for future export opportunities’.[12]

3.13 Over the medium term there are expectations that the outlook for international dairy prices will be positive. This is based on the view that ‘strong demand for dairy products as a result of rising consumer incomes and favourable consumption patterns are expected to result in higher cheese prices’.[13]

3.14 In addition, it is expected that demand for dairy products will continue to grow in developing countries particularly in southeast Asia. This growth is based on ‘growing consumer interest in dairy products, for health and taste reasons, improving infrastructure, and improved dairy product packaging and shelf life’.[14]

3.15 During evidence to the inquiry, the foot and mouth disease (FMD) epidemic in Europe and any implications that it may have for the Australian dairy industry were examined. While the Australian Bureau of Agricultural Research Economics (ABARE) is examining the effect of the FMD epidemic on world meat markets there is less certainty on its effect on the world dairy industry.

3.16 AFFA concluded that ‘with regard to the possibility that demand for Australian product may increase due to shortage of supply following the FMD epidemic, it is unlikely that any drop in production will be significant’. AFFA, however, did suggest that ‘some opportunities are likely for Australia to expand its dairy exports due to our FMD and BSE – free status, and general ‘clean and green’ image’.[15]

3.17 While the medium-term outlook for the dairy industry is considered to be favourable, there are a number of challenges ahead. These issues are examined in the next section.

11 ibid., p. 22.

12 Ashton, D., Brittle, S. & Shaw, I., ‘Dairy, Outlook to 2005-06’, *OUTLOOK 2001, Volume 2, Proceedings of the National Outlook Conference*, Canberra, 27 February to 1 March 2001, p. 281.

13 ibid, p. 281.

14 ibid, p. 282.

15 AFFA, submission no. 34.3, p. 3.

Key challenges influencing value-adding

3.18 The OUTLOOK 2001 conference heard that the Australian and New Zealand dairy industries are 'leading the way' in deregulating their industries, and have the lowest levels of government support of any country. In addition, growing competition and merger and acquisition opportunities have resulted 'in one of the most efficient dairy industries in the world'.[16] In particular, the OUTLOOK 2001 conference heard that:

> The large Australian manufacturing companies continue to concentrate on converting their bulk commodity output into higher value added products, as is the trend around the world. In the longer term, this focus will continue to drive growth and the ability to improve and stabilise returns back to the farm sector.[17]

3.19 Notwithstanding these positive comments, evidence to the inquiry suggested that there were a number of impediments that could impact on future growth opportunities. The key challenges to the dairy industry identified in the inquiry include:

- globalisation and trade barriers;
- competitively priced inputs and infrastructure;
- research and development (R&D); and
- deregulation.

Globalisation and trade barriers

3.20 AFFA indicated that the future prospects of value-adding in the dairy industry are reliant on international markets creating sufficient demand. The domestic market, by itself, is not sufficient to support large-scale, value-adding enterprises.[18] The ADIC stated:

> If you look at us now, we are a major exporter with over 50 per cent of our production being exported. We are now obviously subject to world prices. If we cannot compete on the world market, we cannot sell our product. On 1 July this year, on our domestic market, we removed the last vestiges of regulation that

16 Perkins, D. 'Dairy, 'Globalisation, Implications for the dairy industry, *OUTLOOK 2001, Volume 2, Proceedings of the National Outlook Conference,* Canberra, 27 February to 1 March 2001, p. 292.

17 ibid., p. 295.

18 AFFA, submission no. 34.2, p. 26.

> our industry has on the market milk sector, so now our industry is a totally deregulated industry, very much dependent on the world export price.[19]

3.21 New Zealand is even more export-oriented with exports accounting for about 90 per cent of its production.[20] The ADIC pointed out that while the export market is essential to growth, the most remunerative market is the domestic market. In relation to both the domestic and export markets, the ADIC stated:

> The Australian industry has been able to take advantage of both of those to some extent, but the domestic market is highly competitive. In general, returns on the domestic market are better than on export markets—significantly better—and that is partially because distribution costs are somewhat lower. There is a whole range of other things affecting returns on the domestic market. It is also a slightly higher priced market, it must be admitted, than world markets, and there is a different product mix which gives the industry better returns on the domestic market.[21]

3.22 In view of the importance of the export market to the dairy industry, evidence to the inquiry focused on barriers that reduced market access or competitiveness. The ADIC commented that the most significant barriers to expansion in the high value-adding end of the dairy market 'are trade barriers in the major export markets of the EU, USA, Japan and, to a lesser extent, in other East and North Asian countries'.[22] The ADIC stated:

> Barriers to dairy products in these markets are equal to tariffs of 60 – 200% of the world price. Furthermore, the barriers rise as the level of value-adding in the product increases, sometimes more than proportionately to the value added.[23]

3.23 AFFA indicated that 'tariffs tend to increase strongly in line with the level of processing necessary for a product'. Part of the reason for this is that countries, particularly in the immediate region, are also strongly encouraging growth in their own value-adding industries.[24]

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19 Ms Helen Dornom, ADIC, transcript of evidence, p. 215.

20 ibid., p. 220.

21 Mr Peter Gallagher, ADIC, transcript of evidence, p. 222.

22 ADIC, submission no. 52, p. 6.

23 ibid., p. 6.

24 AFFA, submission no. 34.3, p. 3.

3.24 In addition, the ADIC criticised the use of export subsidies by some countries which affects world prices and distorts market conditions. The ADIC commented that the ‘use of subsidies by EU and USA pushes down export market prices for final products and quickly results in lower prices for all milk in Australia – whether the milk is ultimately destined for domestic or export markets, manufacture or drinking milk’.[25] The ADIC stressed that the elimination of subsidies was essential, particularly as the Australian industry was deregulated and, as such, did not receive ‘government handouts or export subsidies like the rest of the world’.[26]

3.25 The government’s response to trade barriers was outlined by AFFA:

> In securing greater market access for Australian agricultural products, the Commonwealth Government actively participates in and promotes the global move towards an international agrifood trade system which is free from subsidies and other non-tariff barriers. The government’s approach to trade policy has been to adopt a three-prong approach combining multilateral, regional and bilateral approaches to seek improvements in the opportunities for Australian exporters including for exporters of agrifood products. The principal vehicle has been through multilateral negotiations which have been seen as the best way to deliver real reform of the international market for agrifood products.[27]

3.26 AFFA noted that the ‘outcome from the Uruguay Round of multilateral trade negotiations brought agrifood products more directly within the multilateral trade rules, removing a wide range of trade barriers and placing limits on subsidy use’. Notwithstanding this development, AFFA commented that ‘while these negotiations were a step forwards and improved access to a range of markets, trade liberalisation for agrifood products has not moved as fast as anticipated and the fundamental need for reform still exists’.[28]

3.27 In conclusion, AFFA commented that ‘bilateral and multilateral negotiations and arrangements continue to have a crucial role in building exports of processed products, thereby increasing value-adding in Australia’.[29]

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25 ADIC, submission no. 52, p. 7.

26 Mr Peter Gallagher, ADIC, transcript of evidence, p. 222.

27 AFFA, submission no. 34.2, p. 26.

28 ibid., p. 27.

29 ibid., p. 27.

Conclusions

3.28 The Committee is pleased with the reports of the efficiency and competitiveness of the Australian dairy industry. The effect of tariff barriers and subsidies, however, distorts world prices and affects Australia's access to markets. The Committee notes and supports the government's efforts, through bilateral and multilateral negotiations, to reform the international market for agrifood products. The Department of Foreign Affairs and Trade must continue to place a high priority in achieving reform in this area.

Competitively-priced inputs and infrastructure

3.29 There are a range of inputs such as transport, energy and water resources which influence the dairy industry. AFFA commented that 'the process of microeconomic reform in Australia over the course of the 1990s has increased the competitiveness of some of the inputs required for value-adding'.[30] AFFA cited research conducted by the Productivity Commission in 1999 which found that rural and regional Australia has benefited from competition policy with prices for:

- gas falling by 22 per cent on average;
- rail freight falling 16 per cent;
- port authority services down by 23 per cent; and
- STD phone calls down 25 per cent.[31]

3.30 AFFA, however, indicated that there are some concerns with these findings, stating:

> There is some debate about the effective value of some of these savings. For example, although rail freight costs may have dropped, the winding back of rail services during the 1990s to increase efficiency has reduced access for many rural and regional centres. Similarly, while the cost of utilities such as power has decreased in rural areas as a result of the reforms there is growing concern about future access to infrastructure. In some cases existing infrastructure is aging and replacement costs are prohibitive. A recent report found that the emphasis on securing a commercial rate of return or full cost recovery on infrastructure investment is perceived to have created a bias

30 ibid., p. 11.
31 ibid., pp. 11-12.

> against future provision of infrastructure by the public sector, particularly in the rural areas.[32]

3.31 AFFA also reported that the 'cost, availability and quality of packaging is also likely to remain an issue of concern' with minimisation of these costs a key objective.[33]

3.32 The ADIC commented that the dairy industry has benefited from 'many phases of the microeconomic reform efforts of the past decade' but more progress is needed. In particular, the ADIC raised concerns about the delivery of energy to the industry, particularly in Victoria. The ADIC stated:

> The average herd size is now about 160 cows, but we have herds with 500 and 800 cows and rotary sheds that can milk 60 cows at a time. We are also finding that, while the companies are merging and consolidating, they are also differentiating so that a particular product is produced in one area. That requires massive updating of equipment, and we are finding that the power supply is not keeping up with requirements. In fact, we are hearing anecdotally that in some communities people know when the farmer switches on his dairy shed because they get a blip in their power supply. That single-phase delivery of power to country regions is a major restriction on a lot of development in those areas—particularly in the western district.[34]

3.33 The ADIC concluded that the type of help it would like to see from government 'is general support, infrastructure and microeconomic reform'.

Conclusions

3.34 While the evidence suggested that some improvements in energy and infrastructure have resulted from past microeconomic reforms, further progress is necessary. AFFA drew attention to problems with future access to infrastructure and ageing of existing infrastructure. The provision of effective infrastructure is essential and the concerns raised by the dairy industry are not unlike those raised by the light metals industries examined in Chapter 2. As part of that examination, the Committee recommended that the Commonwealth Minister for Transport and Regional Services ensure that, at the next meeting of the

32 ibid., p. 12.

33 ibid., p. 12.

34 Ms Helen Dornom, ADIC, transcript of evidence, pp. 216-17.

Ministerial Council on Regional Development, priority be given to the development of a long-term strategy for the provision of infrastructure to serve the needs of regional and rural communities and value-adding industries. Such a strategy should include the needs of the dairy industry.

3.35 In relation to energy needs, it is not acceptable that some areas are insufficiently supplied. The ADIC identified certain areas in Victoria where this is a problem. The provision of competitively priced energy should be a given and it is unacceptable that in a first-world country such as Australia, problems of supply are being reported. In Chapter 2, the Committee examined the energy needs of the light metals industries. The Committee noted that the National Competition Council forwarded a review of the national electricity market to the Treasurer at the end of July 2001 and intends to conduct an examination every year. The Committee suggests that the concerns of the dairy industry should feature in those examinations.

Research and development

3.36 R&D in the dairy industry is focused around the work of the Dairy Research and Development Corporation (DRDC), which administers industry funded R&D. Industry-funded R&D comes from a levy on farmers, which raises about $14 million a year and is matched dollar for dollar by the Commonwealth Government up to 0.5 per cent of the gross value of milk production. In 1999-2000 the DRDC's revenue and expenditure was $29.7 million and $26.9 million respectively.[35]

3.37 The ADIC commented that 'we are almost up to the ceiling of 0.5 per cent of GVP where the matching dollar for dollar drops out'.[36] The ADIC stated:

> It would be disastrous, however, if the Federal matching funds for the industry R&D effort were limited in any way in the future. As Australia's largest processed food export industry, Dairy returns billions of export dollars every year to the economy: any diminution of its R&D underpinnings would harm that unique value.[37]

35 DRDC, *Annual Report, 1999-2000*, p. 12.

36 Ms Helen Dornom, ADIC, transcript of evidence, p. 225.

37 ADIC, submission no. 52, p. 10.

3.38 The role of the DRDC 'is to maximise the economic, environmental and social benefits to stakeholders through targeted investment in R&D'.[38] The DRDC provides R&D funding to:

- improve productivity and prosperity in farm management;
- improve efficiency, product quality and product development;
- foster international competitiveness and profitability through industry performance; and
- facilitate industry leadership and management.[39]

3.39 The R&D Corporation model 'is an alliance between industry and government that seeks to increase the economic, environmental and social benefits to industry and the general community with innovation through R&D'. The DRDC, and the other RDCs covering the wool, cotton, fisheries, forest and wood products, grains, grape and wine, horticultural, meat, pig, sugar, tobacco, and dried fruits industries, as well as the Rural Industries and Land and Water Resources RDCs, received Commonwealth funding of $150.97 million in the 1999-2000 year.[40]

3.40 Most RDCs are jointly funded by industry and the Commonwealth, with Commonwealth contributions generally matching levies (or export charges) on a dollar-for-dollar basis up to a maximum of 0.5 per cent of the industry's gross value of production (GVP)'[41]

3.41 The exceptions to these arrangements 'are the Fisheries R&D Corporation which, in addition to appropriation funding of 0.5 per cent of GVP, has dollar-for-dollar matching up to 0.25 per cent of GVP, and the Forest and Wood Product R&D Corporation which receives one Commonwealth dollar for every two industry dollars matching up to 0.25 per cent of GVP'.[42] In addition, the Rural Industries RDC and the Land and Water Resources RDC receive about $11 million each in Commonwealth funding from general appropriations.

3.42 The Committee, in a previous report, commented that the dollar-for-dollar subsidy provides an incentive for the primary sector to increase its own R&D funding and to become more involved in R&D priority

38 DISR, *Science and Technology Budget Statement*, *2000-01*, Canberra, 2000, p. 6.6.

39 AFFA, submission no. 34.2, p. 22.

40 http://www.affa.gov.au/docs/innovation/gov_portfolio_agencies/rual_corp_model/randd_finances.html.

41 DISR, *Science and Technology Budget Statement*, *2000-01*, Canberra, 2000, p. 5.4

42 DISR, *Science and Technology Budget Statement*, *2000-01*, Canberra, 2000, pp. 5.4-5.5.

setting. At the same time, the Government contribution also recognises that activities funded by the R&D corporations generate a mix of public and private benefits.[43]

3.43 The ADIC criticised the reduction in the R&D tax concession from 150 to 125 per cent. At the 125 per cent level, the ADIC commented that it 'is marginal at the moment as to whether companies receive a better return with the industry being funded with a dollar for dollar matching or doing their own research and seeking the 125 per cent tax deductibility'.[44]

3.44 The ADIC concluded that in 'order to remain globally competitive in a marketplace dominated by firms whose dairy foods divisions alone are twice to ten-times the size of Australia's largest dairy cooperatives, it is essential that the industry collectively and firms individually continue the research and development effort'.[45]

Conclusions

3.45 The Committee agrees with the conclusion of the ADIC that the Australian dairy industry must continue its research and development effort. The Australian Government is making a contribution through such initiatives as the provision of tax concessions on R&D expenditure, and through contributions to R&D corporations generally matching industry levies on a dollar-for-dollar basis up to a maximum of 0.5 per cent of the industry's gross value of production.

3.46 The Committee is concerned that, in respect to the DRDC, the 0.5 per cent ceiling may soon be reached and therefore proposes that the Commonwealth Government's dollar-for-dollar funding should continue and not be restricted by the current 0.5 per cent ceiling. While the Committee has not received evidence on the operation of the other R&D corporations this premise should also apply to them. The following recommendation will help to address this matter.

3.47 Using AFFA's 1999-2000 budget figures the RDCs received Commonwealth funding of about $151 million. As mentioned above, this included some funds provided out of general appropriations as well as dollar for dollar matching funds. Raising the current dollar-for-dollar funding ceiling of 0.5 per cent of GVP to 0.7 per cent would pose an

43 House of Representatives Standing Committee on Industry, Science and Resources, *The Effect of Certain Public Policy Changes on Australia's R&D*, Canberra, August 1999, p. 36.

44 Ms Helen Dornom, ADIC, transcript of evidence, p. 225.

45 ADIC, submission no. 52, p. 9.

additional impost on both industry and government. The additional commitment by the Commonwealth Government would amount to about $50 million.

Recommendation 8

3.48 **The Committee recommends that the Commonwealth Government raise the current dollar-for-dollar funding ceiling (of 0.5 per cent of the industry gross value of production) for industry Research and Development Corporations to 0.7 per cent.**

Deregulation

3.49 Deregulation has been a major driver of change to the dairy industry in recent times. Prior to deregulation, State governments regulated the milk market to ensure an adequate supply of fresh milk throughout the year. The ADIC commented that by ‘artificially raising the price of more than half of the milk at the farmgate and the price of all packaged milk, the regulations had the effect of making the value-adding contribution of farm and processor investments – in NSW and Qld in particular - seem much larger than would have been the case under market prices for drinking milk products’.[46]

3.50 In response to commercial pressures for deregulation, all State Governments by 1 July 2000 had passed legislation removing farmgate pricing arrangements.[47] The Australian Dairy Corporation reported:

> Deregulation is likely to lead to further rationalisation of the dairy processing and manufacturing sectors. Milk production may fall in some regions as farmers adjust to commercial market pricing for drinking milk. However, in the south-eastern states these impacts will be offset by the improvement in returns on manufactured product sales.[48]

3.51 Similarly, the DRDC reported that deregulation ‘has lowered farmgate prices for market milk in some States, adding to the considerable pressure facing family farm businesses’. The DRDC suggested that ‘developing skills in farm business management can make a substantial

46 ibid., p. 5.

47 AFFA, submission no. 34.2, p. 16.

48 Australian Dairy Corporation, *Annual Report, 2000*, p. 18.

difference to the capacity of many farms to deal with these pressures'.[49] AFFA stated:

> The move to a deregulated environment will assist in lowering costs of production and creating more efficient scale of operations, thereby providing value-adding firms with access to more competitive, lower cost dairy inputs…By deregulating, the Australian Government aims to encourage the dairy industry to develop into a more robust, competitive sector able to respond quickly and efficiently to changing market forces.[50]

3.52 In response to industry concerns about the effects of deregulation on producers, the Federal Government introduced an assistance package estimated to cost $1.78 billion. The framework for the assistance package is provided through the *Dairy Industry Adjustment Act 2000*. The Commonwealth Minister for Agriculture, Fisheries and Forestry, the Hon Mr Warren Truss, MP, commented that deregulation of the dairy industry 'represents the single largest deregulation and adjustment process of any rural sector'.[51]

3.53 The Minister suggested that the industry assistance package is about providing assistance that 'will lead to better industry performance than would otherwise be possible and which in turn will assist in maintaining and, in the long term, increasing job opportunities and income in regional dairying areas'.[52] To emphasise the point that the package of assistance is about structural adjustment, each producer is required to undertake a farm business assessment before they are eligible for payment.

3.54 The Minister stated that deregulation 'without a package would be devastating for some regions'. The package will ensure that areas that have high concentrations of dairy enterprises will be assisted. It is estimated the States will receive the following funding:

- WA $108 million
- SA $127 million
- Tas $76 million
- Qld $220 million

49 DRDC, *Annual Report, 1999-2000*, p. 15.

50 AFFA, submission no. 34.2, p. 16.

51 The Hon Mr Warren Truss, Minister for Agriculture, Fisheries and Forestry, Second Reading Speech, Dairy Industry Adjustment Bill 2000, House of Representatives, *Hansard*, 16 February 2000, p. 13 532.

52 ibid., p. 13 532.

- NSW $337 million
- Vic $765 million.[53]

3.55 AFFA indicated that the package 'provides eligible dairy farmers with quarterly structural adjustment payments over eight years or the option of a tax free exit payment of up to $45 000 where farmers wish to leave agriculture'.[54]

3.56 The Dairy Adjustment Authority (DAA) has been established to administer the scheme. The DAA assesses applications for assistance and advises the Australian Dairy Corporation in delivering payments. The Minister, in his second reading speech, concluded with the view that 'the results of this adjustment will be that the Australian dairy industry production base will be more efficient and more competitive and our dairy export prospects further enhanced'.[55]

3.57 The assistance package is to be totally funded through a Commonwealth levy of 11 cents per litre on sales of liquid milk products over a target period of 8 years.[56] Minister Truss, in a media statement on 28 September 1999, suggested that the 'levy is unlikely to have any impact on retail prices as farmgate prices are expected to fall after deregulation by at least this amount'.[57] In April 2001, the Australian Competition and Consumer Commission (ACCC) reported that:

> Australian supermarket prices for plain, reduced fat and low-fat milk decreased by an average of 22 cents, 6 cents and 9 cents per litre respectively across all pack sizes and brands from the June quarter to the December 2000 quarter. These products make up 81 per cent of total milk sold in supermarkets….Across all categories of milk stocked by Australian supermarkets, the average price decrease in the six months to December 2000 was 12 cents per litre.[58]

3.58 During discussions with AFFA, the Committee sought details on the impact of deregulation. AFFA reported that provisional figures for

53 ibid., p. 13 532.

54 AFFA, submission no. 34.2, p. 16.

55 The Hon Mr Warren Truss, Minister for Agriculture, Fisheries and Forestry, Second Reading Speech, Dairy Industry Adjustment Bill 2000, House of Representatives, *Hansard*, 16 February 2000, p. 13 535.

56 ibid, p. 13 536.

57 Hon Warren Truss, MP, Minister for Agriculture, Fisheries and Forestry, *Media Release*, 28 September 1999.

58 ACCC, *Impact of farmgate deregulation on the Australian milk industry: study of prices, costs and profits*, April 2001 p. xvii.

30 June 2000 show that there were 12 888 registered dairy farms. Following deregulation, its is estimated that 'fewer than 400 farms have exited the industry'.[59]

Conclusions

3.59 The evidence to the Committee commented on the reasons for deregulation of the dairy industry, and the industry assistance package to help structural adjustment. The Committee received no evidence discussing the effectiveness of the assistance package. This is mainly because the assistance package was introduced towards the end of the inquiry. The Committee suggests that a post-delivery review of the package is necessary. The review should ensure that administration of the scheme has been cost-effective and that the scheme's objectives have been met. Where it is found that some of the scheme's objectives have not been achieved, then the review should recommend ameliorative action.

Recommendation 9

3.60 **The Committee recommends that the Minister for Agriculture, Fisheries and Forestry initiate an independent review of the dairy industry adjustment package. This review should assess whether the objectives of the assistance package were met and, if not, then further action should be recommended to ensure that the desired outcomes are achieved.**

59 AFFA, submission no. 34.3, p. 2.