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**Dairy Produce Legislation Amendment
(Supplementary Assistance) Bill 2001**

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I N F O R M A T I O N A N D R E S E A R C H S E R V I C E S

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Dairy Produce Legislation Amendment (Supplementary
Assistance) Bill 2001

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19 June 2001

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Dairy Produce Legislation Amendment (Supplementary Assistance) Bill 2001

Date Introduced: 24 May 2001

House: House of Representatives

Portfolio: Agriculture, Fisheries and Forestry

Commencement: Royal Assent

Purpose

To amend the *Dairy Produce Act 1986* in order to establish the Supplementary Dairy Assistance Scheme.

Background

Before 1 July 2000 the Australian dairy industry consisted of two sectors – the fluid milk or ‘market milk’ sector, and the ‘manufacturing milk’ sector. Both sectors were supported by governments, either State or Commonwealth.

State government marketing arrangements

State government controls over the pricing and supply of milk for drinking (otherwise known as ‘market milk’) had been in place for twenty years or more in most States. The guaranteed farm gate price for market milk was typically well above the average price paid for non regulated milk supplies, despite there being no real difference between the two products. The changes to State government milk marketing arrangements introduced from 1 July 2000 mean that there are no longer any formal quantitative controls on the supply or price of milk sold for drinking. This is equivalent to the introduction of an open market in fluid milk products across Australia. Fluid milk prices, supplies and products are now determined by market forces, although the market is still in transition.¹

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Commonwealth arrangements

The Commonwealth Government provided support to the farm gate price of manufacturing milk during the 1980s and 1990s.² On a cents per litre basis, the level of assistance to farmers under the scheme declined over time and ceased on 30 June 2000.

Under the Commonwealth's Domestic Market Support Scheme, annual payments were made to dairy farmers based on their production of manufacturing milk – that is, milk ultimately used to produce dairy products such as butter, cheese and milk powders. Funds for payments from the scheme were generated through a levy on milk used to produce manufactured dairy products sold on the domestic market, and a separate levy of milk used in the market milk sector. The cessation of the scheme on 30 June 2000 ended the payments to dairy farmers for manufactured milk, as well as the levy on domestic dairy product sales.³

Dairy Industry Adjustment Package

In response to the deregulation of the dairy industry the Commonwealth Government introduced new dairy legislation to commence on 1 July 2000. The new arrangements, known as the Dairy Industry Adjustment Package, comprise three programs:

- Dairy Structural Adjustment Program
- Dairy Exit Program, and
- Dairy Regional Assistance Program.

The compensation package was sought by the peak industry body, the Dairy Industry Council. The Minister for Agriculture, Fisheries and Forestry, Hon Warren Truss announced the Government's decision to provide a \$1.8 billion structural adjustment package for the dairy industry on 28 September 1999. He said then that the package would assist restructure of the industry by helping farmers improve their efficiency and competitiveness after deregulation.⁴ (More information on deregulation of the dairy industry is included in the Bills Digest on the Dairy Industry Adjustment Bill 2000⁵ and the report of the Senate Rural and Regional Affairs and Transport References Committee entitled *Deregulation of the Australian Dairy Industry*.⁶)

Dairy Structural Adjustment Program

The Dairy Structural Adjustment Program provides financial assistance to eligible individuals and farm businesses in the form of fixed quarterly payments over eight years. Eligible individuals or businesses are those deemed to have had an interest in a dairy enterprise as at 6.30pm on 28 September 1999. A dairy enterprise may consist of owners, sharefarmers, lessors and lessees.

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Payments under the program are directly related to market and manufacturing milk production in 1998-99. Funding for the payments is through a levy on sales of drinking milk products that will remain in place for approximately eight years. The levy is fixed at 11 cents a litre. The aggregate amount of support to be paid to eligible dairy farmers under the program will be around \$1.63 billion. Eligible individuals and farm businesses receive quarterly payments under the scheme irrespective of whether or not they continue to produce milk, and irrespective of any changes to the quantity of milk they produce. New dairy farmers or dairy farmers that did not produce milk during the reference period will not receive assistance under the scheme.

Dairy Exit Program

The Dairy Exit Program provides a lump sum payment of up to \$45 000 tax free to those dairy farmers wishing to leave agriculture. The dairy exit package is part of the Restart Re-establishment Grant Scheme originally set up as the Farm Family Restart Scheme in 1997. Its legislative basis is the *Farm Household Support Act 1992*. It is funded from the levy imposed on retail milk.

Dairy Regional Assistance Program

The Dairy Regional Assistance Program (Dairy RAP) has a budget of \$45 million over three years (\$15 million a year) to assist dairy dependent communities affected by deregulation. Dairy RAP is intended to help eligible communities by supporting business investment, community infrastructure development and provide community access to training and counselling services. Funding is available to both non-profit and private sector organisations. Proposals for funding must demonstrate a capacity to create sustainable regional employment opportunities, and/or services that lead to ongoing regional benefits.

There have been three rounds of funding allocations under Dairy RAP to date:

Date announced	No. of projects approved	Funds allocated
17/10/2000	24	\$2.27 million
3/01/2001	30	\$2.99 million
11/04/2001	27	\$3.13 million

Source: Hon Warren Truss, Minister for Agriculture, Fisheries and Forestry, *Media Releases*⁷

The average level of funding for the 81 Dairy RAP projects approved to date is \$103 580 per project, considerably higher than the average Regional Assistance Program (RAP) payment. Dairy RAP includes funding for the employment of Dairy RAP Coordinators,

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project officers and counsellors in various regions. It also provides funding for some substantial commercial enterprises such as the upgrade of the Brunswick Junction Cheese Plant in Western Australia (a Dairy RAP grant of \$1 149 000)⁸ and development of the Waterhouse Irrigation District project in North East Tasmania (\$410 258).⁹ The Labor Party has expressed concerns about some grant approvals because of the type of project funded.¹⁰

Impact to date of market milk deregulation on producers

The Australian dairy industry has been subject to major structural change over several decades and is currently the subject of another round of major structural change. Changes in the market and cost factors have generated strong pressures to increase the size of on-farm operating units. The reductions in Commonwealth assistance to the industry, and the dismantling of State regulations, have added to these market pressures for adjustment.

The end result has been that the number of dairy farms has more than halved over the last twenty five years. This trend has continued over the last decade with the number of registered dairy farms in Australia falling from 15 396 in 1990 to 12 888 in 2000. All States suffered a decline in their dairy farm numbers over this period. Total milk production reached a low in the early 1980s and has since approximately doubled with an accelerated growth rate over the last twenty years. Across Australia, less than 18 per cent of milk is used for drinking products with the remainder used to produce cheese, butter, milk powders and other manufactured dairy goods.¹¹ Australia exports around 50 per cent of its milk production.

It is important to view the expected impacts of the July 2000 deregulation measures in the context of this much longer run adjustment process. The following summary of the impact of market milk deregulation is taken from the January 2001 ABARE Report to the Federal Minister for Agriculture, Fisheries and Forestry entitled *The Australian dairy industry: impact of an open market in fluid milk*. This report noted that:

While the move to an open market in milk was widely publicised, the speed and scope of the resulting changes appear to have been further and faster than some industry stakeholders anticipated. The process of adjustment is proving challenging for many dairy farmers, particularly those in areas where a large proportion of milk production was traditionally sold to the fluid milk sector.¹²

The ABARE study compares the performance of the industry in 1999-2000 with the expected performance in 2000-01 based on information provided by farmers and major dairy companies in November 2000. (The latter figures are averages for a relatively small sample of farms and reflect industry expectations of price and production outcomes for 2000-01. The figures should be treated as indicative 'best estimates'.) The key findings are:

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- **Farm gate milk prices** – Major falls in NSW (down 29% between 1999-2000 and 2000-01), Western Australia (down 30%), Queensland (down 24%) and South Australia (down 14%), with minor price falls in Victoria (-3%) and Tasmania (-7%)¹³
- **Dairy farms leaving industry** – 200 farms in NSW and 110 farms in Queensland left the industry between July and December 2000¹⁴
- **Milk production** – Aggregate milk production is forecast to increase marginally this year, partly reflecting excellent seasonal conditions in most regions. Milk production per farm is expected to increase in Victoria by 6 per cent on average in 2000-01 and by 9 per cent in NSW¹⁵
- **Milk receipts per farm** – Receipts are expected to fall in NSW, Queensland, Western Australia and South Australia but to show a modest increase in Victoria¹⁶
- **Farm profit** – Business profits per farm are expected to decline in all States except Tasmania, in line with the reduction in farm gate milk prices. It is anticipated that there will be large declines in business profits in NSW, Queensland, Western Australia and South Australia, and a small decline in Victoria.¹⁷

The ABARE report suggests that the decline in business profits will be substantially offset by payments made to dairy farmers under the Dairy Structural Adjustment Program (DSAP), but that the extent of this offset will vary between States. Based on a sample of farms, ABARE's estimates of business profit per farm and average DSAP payments per farm in 2000-01 are as follows:

	Farm business profit, excluding DSAP payments		Estimated annual payments from DSAP	
	1999-2000	2000-2001	1999-2000	2000-2001
New South Wales	\$19 614	-\$30 533	0	\$20 319
Victoria	\$1 290	-\$2 123	0	12 338
Queensland	\$10 845	-\$31 899	0	\$15 869
South Australia	\$15 700	-\$15 760	0	\$18 165
Western Australia	\$50 735	\$31 321	0	\$30 926
Tasmania	\$20 257	\$1 117	0	\$8 947

Source: ABARE, *The Australian Dairy Industry: impact of an open market in fluid milk supply*, Table 3, 'Selected estimates for common sample dairy farms; Average per farm', p. 12-14.

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These estimates suggest that for the average farm, taking account of farm business profit and expected DSAP payments, dairy farmers in NSW, Queensland and Western Australia will be substantially worse off in 2000-01. Those in South Australia and Tasmania will also be worse off and only those in Victoria will be better off.

Impact to date of market milk deregulation on retail milk prices

The Australian Competition and Consumer Commission (ACCC) has been given the task of monitoring milk prices. In April 2001 an ACCC report on price monitoring in the milk industry found that consumers were paying an average of 22 cents per litre less for plain milk sold in supermarkets following the first six months of a deregulated dairy market.¹⁸ According to the ACCC, Australian supermarket prices for plain, reduced fat and low-fat milk decreased while the prices for UHT, flavoured and specialty milk increased over the same period. 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. In convenience and corner stores the decrease in prices of plain milk and other milk categories was generally less pronounced.

Price reductions for milk were greatest in Victoria where plain milk fell by an average of 32 cents per litre in supermarkets. Price decreases in New South Wales which previously had low retail prices for milk, declined to a lesser extent. The ACCC concluded that overall there is now less variability between milk prices in different States.¹⁹

At the same time, the ACCC also found that the prices paid to farmers for milk had fallen by 19 cents per litre since the advent of deregulation. The report stated that New South Wales, Queensland and Western Australia, 'where market milk accounts for nearly half of all milk produced, will experience the largest reductions in dairy farm income following deregulation'.²⁰

Local and regional impacts of dairy deregulation

The adjustment pressures from milk deregulation are expected to be greatest in those regions with a relatively large number of dairy farms with a relatively high reliance on sales of market milk. ABARE identified over fifty statistical local areas where deregulation has had a high average on-farm impact. All of these areas are located in NSW, Queensland or Western Australia, and over half of them were also in areas which ABARE further identified as having a medium to high regional dependence on dairying.²¹ ABARE concluded that it seems inevitable that the costs of adjustment will be very unevenly spread both within and between the many areas of Australia with a significant reliance on the dairy industry.²²

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Supplementary Dairy Assistance Scheme

The Government announced in the Budget that an additional \$140 million of assistance measures would be available for dairy farmers and dairy communities that have been most affected by deregulation.²³ In a press release issued on 22 May 2001, the Minister for Agriculture, Fisheries and Forestry, Hon Warren Truss, said that

The Government is providing this additional assistance after a report by the Australian Bureau of Agricultural and Resource Economics clearly showed the decline in market milk prices has been greater than industry expected, particularly in the former quota States of NSW, Queensland and Western Australia.²⁴

The Minister said in his Second Reading Speech to this Bill that the additional assistance would be ‘closely targeted to those farmers and dairy communities that have been most severely affected by deregulation’.²⁵

The additional assistance consists of

- \$100 million in additional adjustment payments to those producers who earned more than 35 per cent of their income from market milk before deregulation
- \$20 million for discretionary payments to those individuals or businesses that were excluded or received a significantly lower DSAP entitlement than was anticipated, and
- \$20 million for additional funding of Dairy RAP to assist dairy dependent communities.

The additional measures will be funded by extending the existing levy on sales of drinking milk products into the year 2008-09. The Minister said in his Second Reading Speech that ‘it is estimated that the levy would be in place for an additional period of at least seven months and perhaps 10 months’.²⁶

The Bill was introduced on 24 May 2001 and referred immediately to the Senate Rural and Regional Affairs and Transport Legislation Committee for inquiry.²⁷ The Committee has yet to report.

Main Provisions

Supplementary Dairy Assistance Scheme

The additional measures are to be known as the Supplementary Dairy Assistance (SDA) Scheme (**item 8**). There are to be two types of SDA payments, one called ‘additional market milk payment rights’ and the other ‘discretionary payment rights’ (**item 3**). Both are to be administered by the Dairy Adjustment Authority (**item 4**) as one of four grants

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provided through the Dairy Industry Adjustment Program (**item 2**). SDA payments are to be funded through the levy on consumers of drinking milk products (**item 5**).

The operation of the SDA Scheme is contained in **proposed Division 1A in Part 2 of Schedule 2** of the *Dairy Produce Act 1986* (the Principal Act) which is inserted by **item 10**.

Clause 37E provides that to be eligible for the additional milk market payment an individual or farm business must be already assessed as eligible for payment rights under the Dairy Structural Adjustment Program (DSAP), and have an interest in a dairy farm enterprise on 21 May 2001. Payments made under the supplementary assistance measures are directly related to market milk production in 1998-99. They will only be available to farmers who were dependent on market milk sales for at least 35 per cent of their production (**subclause 37E(1)(c)**).

The rate per litre will depend on the percentage of market milk produced by an eligible enterprise and will be between 0 and 12 cents per litre. For every 0.1 per cent increase in market milk deliveries greater than 35 per cent, the enterprise will receive an additional 0.12 cents per litre up to 45 per cent, after which a flat rate of 12 cents per litre will apply. The maximum enterprise entitlement will be limited to \$60 000. The total enterprise entitlement will be apportioned amongst entities that receive a DSAP payment for market milk, in the same proportions as the DSAP market milk payment (**subclauses 37E(2) to 37E(6)**).

Eligible individuals and farm businesses can choose to receive the additional market milk payment as a lump sum, or as a quarterly payment over eight years backdated to 1 July 2000 (**clause 37P**). The payments will be subject to income tax, whether they are taken over an eight-year period or as a lump sum (clause 75 of the Principal Act).

Clause 37H makes provision for discretionary payments to individuals or businesses that are able to demonstrate that a significant event or crisis had affected their deliveries or earnings in 1998-99. In his Second Reading Speech the Minister said that '[e]vents that may be considered might include personal circumstances such as illness, injury related incapacity, death or animal disease that significantly disrupted production. Atypical farm management arrangements during the base year that resulted in lower, or zero, milk deliveries by the applicant will also be considered on the merits of each case'.²⁸ **Clause 37J** enables the Minister to make limited discretionary payments to other lessors who derive 50 per cent or more of their total income from the dairy enterprise lease who can demonstrate this lease income has fallen by at least 20 per cent since July 2000. The payment would be capped at an amount determined by the Minister in the SDA scheme (**subclause 37J(2)**). As with the additional market milk payments, discretionary payments will be subject to income tax.

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Protection of confidentiality of information

The DSAP scheme has its own provisions for secrecy and to protect the confidentiality of information provided to the DAA. These are contained in Division 3 of Schedule 2 of the Principal Act. **Items 1** and **14-16** bring the SDA scheme under these arrangements.

Dairy exit payments are made under Part 9C of the *Farm Household Support Act 1992*. **Item 51** amends the *Farm Household Support Act 1992* to provide for the disclosure of Dairy Exit Program information to the DAA where is connected with the administration of the SDA scheme.

Dairy Regional Assistance Program (Dairy RAP)

Clause 86 of Schedule 2 of the Principal Act deals with Dairy RAP. **Item 44** repeals the provision that payments under Dairy RAP may only be made during the three-year period beginning 1 July 2000. **Item 45** provides an additional \$20 million to Dairy RAP. At present the legislation provides that the total amount paid for Dairy RAP in a particular financial year must not exceed \$15 million. **Item 46** removes this limit.

Endnotes

- 1 ABARE, *The Australian dairy industry: impact of an open market in fluid milk supply*: report to the Federal Minister for Agriculture, Fisheries and Forestry, January 2001, p. 4.
- 2 The Commonwealth arrangements date back to the ‘milk wars’ of the 1980s which resulted initially in the Kerin Plan (1986), followed by the Crean Plan (1992). This plan was modified in order to meet Australia’s obligations under the World Trade Organisation and led to the implementation of the DMS on 1 July 1995. The DMS had a sunset clause which was reached on 30 June 2000.
- 3 ABARE, *The Australian dairy industry: impact of an open market in fluid milk supply*: report to the Federal Minister for Agriculture, Fisheries and Forestry, January 2001, p. 4.
- 4 Truss, Hon Warren, ‘Dairy industry restructure package’, *Media Release*, 28 September 1999.
- 5 Neilsen, Mary Anne, ‘Dairy Industry Adjustment Bill 2000’, *Bills Digest*, v. 127 (1999/2000), 7 March 2000.
- 6 Senate Rural and Regional Affairs References Committee, *Deregulation of the Australian Dairy Industry*, Canberra, AGPS, 1999.
- 7 Truss, Hon Warren, ‘\$2.2 million Federal Funding for Dairy Communities’, *Media Release*, 17 October 2000; ‘\$2.99 million Federal Funding for Dairy Communities’, *Media Release*, 4 January 2001; ‘More Dairy RAP funding for projects in dairy regions’, *Media Release*, 11 April 2001.
- 8 Truss, Hon Warren, ‘More Dairy RAP funding for projects in dairy regions’, *Media Release*, 11 April 2001, p. 5.

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- 9 *ibid.*, p. 7.
- 10 O'Connor, Gavan MP, 'Question without Notice: Dairy Industry: Adjustment Package', House of Representatives, *Debates*, 28 February 2001, p. 24642; O'Brien, Sen Kerry, Senate, *Debates*, 29 March 2001, p. 23398.
- 11 Australian Competition and Consumer Commission, 'Big gains to consumers from dairy deregulation', *Media Release*, 9 April 2001.
- 12 ABARE, *The Australian dairy industry: impact of an open market in fluid milk supply*, *op cit.*, p. 1.
- 13 *ibid.*, p. 9.
- 14 *ibid.*, p. 9.
- 15 *ibid.*, p. 10.
- 16 *ibid.*, p. 11.
- 17 *ibid.*, p. 19.
- 18 Australian Competition and Consumer Commission, 'Big gains to consumers from dairy deregulation', *Media Release*, 9 April 2001.
- 19 *op cit.*
- 20 Reported in Murphy, Katherine and Cathy Bolt, 'Dairy scorecard: consumers only winners', *Financial Review*, 10 April 2001.
- 21 ABARE, *The Australian dairy industry: impact of an open market in fluid milk supply*, *op cit.*, p. 23-24.
- 22 *ibid.*, p. 24.
- 23 Truss, Hon Warren, *Safeguarding our rural resources*, Statement by the Honourable Warren Truss MP, Minister for Agriculture, Fisheries and Forestry, 22 May 2001, p. 7.
- 24 Truss, Hon Warren, 'Truss announces an extra \$140 million for dairy farmers and their communities', *Media Release*, AFFA01/125WT, 22 May 2001.
- 25 Truss, Hon Warren, 'Second Reading Speech', Dairy Produce Legislation Amendment (Supplementary Assistance) Bill 2001, House of Representatives, *Debates*, 24 May 2001, p. 26967.
- 26 *ibid.*, p. 26970.
- 27 *Journal of the Senate*, 24 May 2001.
- 28 *ibid.*, p.26969.

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