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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
REFERENCES COMMITTEE

Reference: Australian dairy industry

WEDNESDAY, 28 JULY 1999

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SENATE
RURAL AND REGIONAL AFFAIRS AND TRANSPORT REFERENCES
COMMITTEE

Wednesday, 28 July 1999

Members: Senator Woodley (*Chair*), Senator Crane (*Deputy Chair*), Senators Calvert, Forshaw, Mackay and O'Brien

Participating members: Senators Abetz, Bartlett, Boswell, Brown, Brownhill, Faulkner, Ferris, Harradine, McKiernan, Murphy, Watson and West

Senators in attendance: Senators O'Brien and Woodley

Terms of reference for the inquiry:

- (a) future domestic and international marketing conditions facing the Australian dairy industry and those factors which are influencing Australia's competitiveness in these markets;
- (b) the pressures on the current industry regulatory arrangements such as the introduction of new technologies and competitor supplier countries such as New Zealand;
- (c) the impacts associated with the removal of the Domestic Market Support scheme on:
 - (i) the dairy industry and rural and regional communities, and
 - (ii) state marketing arrangements; and
- (d) measures which may be taken by government to facilitate the transition to a less regulated environment.

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Subcommittee met at 10.59 a.m

CHAIR—I declare this public meeting of the Senate Rural and Regional Affairs and Transport References Committee open. The committee is meeting today to continue its inquiry into the effects of deregulation of the dairy industry. The terms of reference are well known by now, but copies are available from the secretariat if required.

The committee advertised the reference in national and regional newspapers in March. To date the committee has received 108 written submissions from industry groups including the major industry groups, farmer organisations in most states, manufacturing organisations and many from individual dairy farmers themselves. These submissions have been published by the committee. I would like to thank everyone who has made a submission. They are of great assistance to the committee's deliberations and will be considered fully by the committee during preparation of its report to the Senate.

We are coming to the end of two weeks of public hearings into this very significant matter. The hearings have been public and open to all and a *Hansard* transcript of the proceedings is being made. The *Hansard* will be available in hard copy from the committee secretariat, or via the Parliament House Internet home page. Witnesses at the hearings have been chosen by the committee from many submissions received so as to provide as complete a picture as possible of the major issues.

There is a formal program for the day's proceedings. However, we expect that there will be time for us to take short statements from people at the conclusion of the formal program. The idea of this is that people who have not been called as witnesses can still make statements to the committee. The format for that will be that each person will have about three minutes to give the committee his or her views without questions from the committee and those contributions will form part of the *Hansard* record of the inquiry.

It should be noted that the committee has authorised the recording, broadcasting and rebroadcasting of these proceedings in accordance with the rules contained in the order of the Senate of 23 August 1990 concerning the broadcasting of committee proceedings.

Before the committee commences taking evidence, let me place on record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence given before it. Parliamentary privilege means special rights and immunities attached to parliament or its members and others necessary for the discharge of functions of the parliament without obstruction and without fear of prosecution. Any act by any person which may operate to the disadvantage of a witness on account of evidence given by him or her before the Senate or any committee of the Senate is treated as a breach of privilege.

While the committee prefers to hear all evidence in public, if the committee accedes to such a request, the committee will take evidence in camera and record that evidence. Should the committee take evidence in this manner, I remind the committee and those present that it is within the power of the committee at a later date to publish or present all or part of the evidence to the Senate and the Senate also has the power to order production and/or publication of such evidence. I should add, however, that any decision regarding publication

of in-camera evidence or confidential submissions would not be taken by the committee without prior reference to the person whose evidence the committee may consider publishing.

[11.03 a.m.]

PURVIS, Mr Ronald Joseph (Private capacity)

CHAIR—Welcome, Mr Purvis. Would you like to make some opening remarks for the committee? We would be very grateful to hear from you and then we will move to some questions. We have a written submission from you which we have read.

Mr Purvis—Thank you. I would like to say that, as for the deregulation of the dairy industry being for the benefit of the consumer, if we work out that we are producing that milk and finishing up with about \$8 an hour for our labour, I do not really think that we are creating much of a problem for the consumer. One good example I could use would be a tonne of wheat costing maybe \$150. If you purchase a 750-gram container of Weeties in the supermarket and count the flakes in that packet, it works out to over \$5,200 a tonne. The food producer is not really creating much of a cost to the consumer.

I think that originally the purpose of deregulation was for the benefit of the consumer. It is fine to look at that, and I agree with that. However, the deregulation issue seems to have been taken on board by parts of the industry for their benefit more than the benefit of the consumer, and I find it is very hard to come to grips with that sort of situation. That is about all I would say by way of comment. I could probably talk for a couple of hours on various things but—

CHAIR—The best way of doing that is probably to let us ask questions and that will bring out a lot of other things that you want to say. I will ask Senator O'Brien to begin.

Senator O'BRIEN—What I have been doing as we go around the country, Mr Purvis, is getting some detail on the record about seasonal factors in the regions where we are taking evidence, and about production costs and farm gate milk prices, so I would like you to deal with a couple of those issues for me. What are the seasonable factors in terms of milk production here? Obviously, if you are producing white milk for the supermarkets, you are usually producing regular quantities year round. On the other hand, you may decide to be a seasonal producer—I am not sure what the situation is in this district—where you would be producing the bulk of your milk in the second half of the year and through to Christmas perhaps, but not as much in, say, the third, fourth, fifth and sixth months of next year. What is the factor here and what sort of variation do you get?

Mr Purvis—In terms of the seasonal conditions in the south-east and to maintain a regular supply of milk, irrigation comes into effect from possibly the end of October and might run through to April, depending on the season. Sometimes I have irrigation going in May. This year was not quite so bad. To irrigate, there are huge costs involved initially. The equipment I use at my place is mainly centre pivot irrigation—that is \$100,000 worth of equipment there to start with. Fuel to operate the engine for pumping works out at \$3,000 or \$4,000 a month. So there is a reasonable cost per month from November through till April to maintain that grass growth. In the winter, to maintain reasonable production we have to keep a reasonable amount of feed supplied to the cows because the conditions can become quite cool, and with a lack of feed their milk will drop off quite substantially. All in all, if they are not fed, they do not produce.

Senator O'BRIEN—What can you tell us about the total cost of production, perhaps your own or what you believe would be average for this region for a dairy farmer, per litre of milk?

Mr Purvis—I think the cost of production varies quite a bit with various farms. It depends on how they are set up, what equipment they have, what infrastructure they have. My cost of production would be a lot less than what it would be for some, although my overall production would be less. I find that by not putting too much feed into the cows I can control my operating costs a lot better than fully relying on extensive feeding. I keep it down that way.

Senator O'BRIEN—Can you give us some sort of figure, a rough figure?

Mr Purvis—It would be about 18c a litre. That is what I have checked on some of my operating costs.

Senator O'BRIEN—That is an average year-round cost, is it?

Mr Purvis—That is right.

Senator O'BRIEN—What about your farm gate prices for milk?

Mr Purvis—My overall price, including manufacturing price and market milk price, at the moment is around 31c a litre.

Senator O'BRIEN—What does it break down to for each of those two components, manufacture and market?

Mr Purvis—Our market milk is actually about 51c less—a little bit compared with the central region. I could not really give you the manufacturing price at the moment. I just look at the overall price basically when I am working out my costs.

Senator O'BRIEN—Would you mind giving that information to the committee later, if you do not mind?

Mr Purvis—I can.

Senator O'BRIEN—That would be good.

CHAIR—Does cost production include imputed labour costs and so on?

Mr Purvis—No.

CHAIR—They are just your inputs?

Mr Purvis—That is right. If I included labour costs, that would just about cancel out what is left, I would think.

Senator O'BRIEN—Your margin is effectively your return on your labour, without factoring in returns on capital and the like?

Mr Purvis—That is right.

Senator O'BRIEN—You have no doubt heard predictions on prices for market milk falling to, say, 35c. Have you heard that?

Mr Purvis—I have heard that.

Senator O'BRIEN—What do you believe that will do to the future of farmers such as you? Can you see yourself continuing to operate with a significantly lower overall margin on your milk production?

Mr Purvis—At this point, I do not know exactly what is going to happen. I have heard the stories. Until something is in concrete, I guess I cannot make a firm decision. However, if those sorts of prices did come into effect, I suppose I would have to remove my help on the farm to reduce that cost—that person would then be out of work—or I would have to remove myself and pass the work on to my son. I do not think that either of us at this stage would be able to handle the whole lot by ourselves. I would have to look at whether it would be justified to put the hours in to produce my milk at that particular price. To see whether it would actually be worth doing, I would have to reassess the situation when it did happen.

Senator O'BRIEN—Would operations such as yours consider reducing your year-round production and becoming purely seasonal?

Mr Purvis—I think there are problems. I have always milked year round. With seasonal milking, one thing I would have to do is increase my storage capacity. I would have all the milk coming at once whereas now I spread it out. There are problems with calving in certain parts of the year against others. In the summertime, I have less trouble with milk fever and with various other calving problems. In the wintertime, you have more. Because I calve all year round, I might have only a certain percentage of calving problems to watch and look after in winter. It reduces my workload in that regard.

Irrigation is not quite as bad as it used to be with the centre pivot I now have. I estimate that I am saving 20 hours a week there compared with the travelling irrigators that I used to have. So that has reduced the labour rate there. It probably only takes 10 minutes now to go and switch it on whereas it used to take me an hour or two morning and nights at least to do that. Compared with the travelling irrigators, I am putting on four times as much water per hour and using the same amount of fuel, so the cost has reduced. Also, I find that I have more feed available because of irrigation. If I relied purely on seasonal conditions, I would not be growing the same amount of feed.

CHAIR—I want to ask you about your written submission and there are a few comments that you might like to make. You say in your written submission that you met with the senior management of one of the major supermarkets and there is information and comment from that meeting that you would like to share with us. Is there anything else beyond what

you have all ready said that you feel would be useful to this committee in terms of any conversations with supermarkets?

Mr Purvis—As far as that meeting went, at that point in time they had had no contact from farmer level at all to their knowledge and were most appreciative that I met with them and got the story from farmer level. Up until this point in time they had only ever had farmer opinions from the processor side. They were appreciative that they were now being informed from farmer level. As far as the deregulation issues go, I am only going on what they said, and time will tell what happens.

CHAIR—We are finding that that is fairly common with this inquiry. We are all still working in the dark at times.

Mr Purvis—However, they did guarantee me that they would not be profiteering from deregulation. They pointed out their profit margins in the dairy side of their business to me and they were reasonably happy with their margins at this point of time. As a result of that, they guaranteed me that they would not be putting pressure on processors to increase their margins. However, they did say that, if processors were going to come to them and fight for market share, and one offered a lower price than the other, they said they would certainly have to look at the situation. However, they have said to me that they would be bearing in mind that the farmer must receive a fair share of the cake. They are well aware of that and they will make a decision accordingly.

They did also stress that they would be keen to keep in contact and keep the communication open with farmers. They asked us to advise them at any stage if we felt that we were getting screwed too much, and they would be prepared to come and discuss it with all sections of the industry, if need be. Whether that would happen then, I do not know at this point.

CHAIR—It sounds like a good offer to me.

Mr Purvis—I felt comfortable with that meeting that I had. At this stage I will still keep in touch with them and keep them informed, because we are all in it together. I made the contact initially because I was not aware of exactly where they stood in the situation and what they understood about the issues. That is the reason why I made that contact. If we can work with them, hopefully we will get our fair share.

CHAIR—Your written submission was made in May, so it is nearly three months old. In that written submission you said:

. . . some processors are pushing for the removal of regulation but not backing that move with facts and figures.

I wondered in the three months since you wrote that if you have perhaps had any more facts and figures from processors or other bodies.

Mr Purvis—Not really. I keep reading the same stories over and over again. I think the stories you read today are not much different from the ones you read back in May. Most processors are probably waiting for the next one to make an announcement before they do. I

guess all that we still have to go on are rumours and some facts and figures like the 35c or whatever that everyone is reading about. But, until the time comes, we are sitting here waiting, which is unfortunate because to run a business successfully the processors would have to have some idea now what they were going to pay. They cannot run a business successfully if they do not plan a little bit ahead.

CHAIR—What you are saying is that you cannot run your business unless you have some idea too.

Mr Purvis—At this point in time I cannot make a decision until I get some facts and figures.

CHAIR—In your written submission you also say that you are not convinced that the UDV is going in the right direction and you also say that you do not believe that the UDV truly reflects the opinions of all Victorian dairy farmers. I am sure that is true, but how do you come to that opinion? Do you believe that the majority of dairy farmers in Victoria support the UDV, a significant minority do not, or can you give us any idea of what you mean there by saying that the UDV does not represent all Victorian dairy farmers?

Mr Purvis—That would be based on what I would be reading in farm journals and letters to editors and from phone conversations to some people in Victoria. I certainly could not give you the actual numbers for and against. I do not know whether anyone has done an exact head count on every dairy farmer in Victoria.

CHAIR—It is fair to say that we have had this in a lot of places. The proposition has been put to us that there ought to be a ballot. Certainly some states think there ought to be a ballot in their state and other people are saying there ought to be a ballot of all dairy farmers across Australia to actually try and work out where dairy farmers are at themselves. Do you have an opinion about that?

Mr Purvis—It would be interesting to have that answer to find out exactly what every dairy farmer in the country was thinking. One could say that a lot of meetings could be held around the various states if the farmers were freely available to go to those meetings. That could be the case also. However, there are a lot of farmers with workloads such that they feel they cannot get to these meetings. I spoke to some farmers locally who knew this meeting was on today, but they said, 'I don't think I can make it,' which is unfortunate.

CHAIR—My last question is to do with the possible social impact of deregulation, which comes on top of the pressure and stress on farmers not only in the dairy industry but in many farming industries. You commented that there were increased numbers seeking help from rural councils, and you were worried about the possible impact of deregulation in a social context. Can you expand that picture for us in your experience of those kinds of stresses and what is happening to farmers in this area?

Mr Purvis—That was based on comments I received from a farmer who was in consultation with a rural councillor who passed on the information to him that her biggest client base was now dairy farmers who did not have enough information to make any decisions. They did not know exactly what was going to happen. They felt that their

situation was financially fairly tight and that, based on what they were reading and hearing, it was definitely going to be worse. One particular person got a call from his bank, not locally but from Adelaide, to request him to come to Adelaide to discuss his finances. This made it fairly stressful for him, because it is not possible to drive four hours one way and four hours back and, at the same time, milk the cows morning and night.

CHAIR—He would be very early and very late, wouldn't he?

Mr Purvis—That particular person knew that, based on what he was reading and hearing, he would not survive in a deregulated environment and had to put his place on the market. He could have survived with the existing prices. He could have survived with seasonal changes to price, but he knew that he would not survive over a long period in a deregulated market.

Member of the audience interjecting—

CHAIR—It is probably not a good idea to have comments from the audience, but there is the period at the end if folks would like to have their say. After lunch, we would be very happy to have any comments from anyone beyond those whom we have asked to appear before us. Thank you very much, Mr Purvis, for your evidence. That is of great value to the subcommittee, and we thank you for appearing.

[11.29 a.m.]

BEAUCHAMP, Mr Francis Todd, General President, South Australian Dairy Farmers Association

LUZ-RAYMOND, Mr Christopher, CEO, South Australian Dairy Farmers Association

CHAIR—We are very thankful to have you with us this morning. We would be very happy if either or both of you would like to make an opening statement, and then we will ask you some questions.

Mr Luz-Raymond—Thank you. The South Australian Dairy Farmers Association made its submission to the Senate inquiry in April 1999, recognising that the commercial and legislative pressures being exerted on the industry to deregulate were considerable. The association supported fully the industry proposal for a restructure package as the most viable means of achieving a transition from regulation to deregulation. Since April 1999 and our first submission, a number of events have occurred within the industry that make deregulation a fact and the restructure package vital. The most significant of these events was the Victorian government's announcement on 13 July 1999 that it intended to remove the remaining statutory controls on the price and supply of Victorian liquid milk. The decision was made early to assist with the industry's representation to the Commonwealth government for a national dairy industry deregulation adjustment package.

South Australia is midstream in its national competition policy review. However, the South Australian government has already expressed its determination to follow the Victorian path. The South Australian government has recently noted in informal advice that it has written to the federal minister for agriculture urging him to make a speedy decision on the restructure package.

There has been some unjustified criticism in other states—certainly not in South Australia but notably in Victoria and Tasmania—about the perceived lack of industry consultation at farmer level on what is happening with deregulation. In our supplementary submission we would like to note that our association has sought to reinforce the consultative and information process that it has undertaken in regard to the issue of deregulation amongst our members and also the general dairy farming community.

There has been considerable debate throughout the consultative and information process on deregulation, and there has been considerable support for the direction being taken by our association in leading this state's farmers' organisation in relation to the restructure package. The consultative and information process included two state conferences that we had in June 1998 and June 1999. The major theme was deregulation and we had some high profile speakers from across Australia—in fact internationally—speaking about deregulation of dairy industries, and a significant number of farmers attended those conferences.

District meetings and annual general meetings have also been well attended by farmers. In August of last year there was a series of four district meetings held across South

Australia, which over 420 dairy farmers and interested parties attended. The association gave several views on deregulation, and generally those meetings supported the direction that the association was taking in regard to deregulation.

Through our central council meetings, our SADA journal, information in our supplementary submission, an enormous amount of information in the electronic and print media, and personal contact by telephone and personal visits from dairy farmers, there has been a constant flow of information on this issue.

The conclusion that our association has come to is that the dairy industry has recognised that the commercial and legislative pressures will lead to total deregulation of the industry. To that end, a unanimous industry decision and position has been put forward to both the federal and state governments on a proposal to enable a transition from regulation to deregulation. This transition involves a \$1.25 billion restructure package, funded and repaid through the current milk price structure. Without the restructure package, the impact of deregulation could be potentially catastrophic on our industry. That concludes our opening statement.

CHAIR—Mr Beauchamp, did you want to make any comments?

Mr Beauchamp—Only to add strength to what Mr Luz-Raymond has said. I agree with everything he said. I would like to make the point that, until April of this year, South Australian Dairy Farmers Association members have fought long and hard to maintain regulation within the industry. It was not until that date that we realised that there was no way of convincing the Victorian industry that they should not deregulate. Consequently, in our central council meeting in April of this year, we decided to put all our weight behind making sure we get the restructure package.

We understand the hurt—not only understand, but I am one of those who are going to be feeling the hurt—that comes about from deregulation, and we appeal to you to join with us in making sure that the restructure package, which has been sought from the federal government, comes into being and gives dairy farmers something to get us over the line once 1 July 2000 comes.

CHAIR—I think your association reflects nearly all of the state associations that we have heard from—probably apart from Victoria. I will ask you a few questions about the restructure package. As we move around we find that there are different understandings of that, and I am interested in how you see it. Is it your understanding that all states would need to sign off on the restructure package before the federal government would be prepared to legislate for that?

Mr Luz-Raymond—It certainly is. I do not believe that any state can stand aside. It is one of those delicately balanced issues where both the state and federal governments would have to agree in principle that the state governments would withdraw their various state government legislations in terms of regulation of market milk and then the federal government would legislate for the overall restructure package. Certainly every state would have to commit themselves to that process.

CHAIR—Are you aware that some states are saying that they really believe that they should not deregulate? Although at this stage they are not saying they will not deregulate, they are certainly saying that, until they are convinced that a restructure package, et cetera was in place, they are certainly not going to go down that road. Are you aware of that?

Mr Luz-Raymond—We are well aware of that. In fact, I believe some of the states are nervous that there might be legal action against the states by individuals or groups of dairy farmers because of quotas and other issues. So that is understandable.

CHAIR—The evidence given to this committee is that in fact legal action will be taken in at least one state. Are you aware yet whether or not the taxation issue has been sorted out? Our understanding in this committee is that the restructure package is for \$1.25 billion, but that would need to be free of any tax implications because that really would be a minimum free of tax to be of use to farmers.

Mr Luz-Raymond—We were at a meeting at the Dairy Industry Council last week and the tax issue was being discussed then. It is in the process of being resolved. As far as the industry is concerned, we are looking at \$1.25 billion as a net amount. Certainly we are looking at minimal tax implications on that, and advice was that the bureaucracy and the industry were working towards achieving that aim.

CHAIR—I have a couple of other questions, but I will let Senator O'Brien ask some. If he does not ask those, I might come back to you.

Senator O'BRIEN—You said in your evidence earlier that there were unjustified criticisms in Victoria and Tasmania about consultation. My understanding was that the criticisms in those states were about the consultation in those states. How do you say that they were unjustified?

Mr Luz-Raymond—Talking to our counterparts, particularly in Victoria, and reading and hearing first-hand from the people who are criticising the state farmer organisations, we believe that the state farmer organisations have put out as much information as they possibly can and held appropriate meetings—several rounds of meetings. The fact that those people who have been criticising have not attended meetings or have not voiced their opinions leads me to believe that that criticism of the state farmer organisations was unjustified in the main.

Senator O'BRIEN—Did those organisations ask you to make that submission?

Mr Luz-Raymond—No, they did not; quite the contrary.

Senator O'BRIEN—Then they asked you not to make the submission? They did not ask you to make a submission at all. Is that what you are saying?

Mr Luz-Raymond—No, they certainly did not ask us to make one.

Senator O'BRIEN—Given that we have had evidence directly from those states—and it seems to me there is a case on both sides, and no-one has argued perfectly—it would be difficult from afar to make the claim that you make, that no criticism was justified.

Mr Beauchamp—That is our feeling, Chairman. That is our opinion.

Senator O'BRIEN—That is the point that I am making, that you could only have an opinion. It would be no more than that.

Mr Luz-Raymond—One of the reasons I have put the detail into the submission is to attempt to inform the committee of how much information we have put out to our individual farmers, both to those who are members of our association and to those who are not members of our association. We have tried to be as proactive as humanly possible.

Senator O'BRIEN—In the annual conferences you referred to, you had as a theme the subject of deregulation. You said you had high profile speakers speaking on the international situation. We have had some information put to us in submissions about the international situation. Are there speaking notes or addresses of those speakers committed to writing? If so, can they be made available to the committee?

Mr Luz-Raymond—I can certainly find some of those notes and make them available.

Senator O'BRIEN—That would be good. That would indicate to the committee the basis for the reflection of the industry on the international experience—the basis for views that might be arrived at here as to what is likely to be the outcome.

Mr Luz-Raymond—Certainly.

Senator O'BRIEN—You say in your written submission:

Without a suitable 'restructure package' at dairy farmer level the South Australian industry could suffer a devastating impact.

Earlier in the submission, you talk about production falls of 27 per cent. Is that what you mean by a 'devastating impact' or is there something more that you would want to tell us about the possible devastating impact?

Mr Luz-Raymond—That is generally the theme of the impact that we were looking at. In about August 1998 we conducted an attitudinal survey as part of our debate into deregulation. That survey indicated either a 3c or 6c loss to a dairy farmer—that up to 27 per cent of the South Australian industry would seek to exit. Dairy farmers could not cope with the loss of up to 6c a litre on milk, so 27 per cent of the farmers have indicated they would leave the industry, and therefore that would have a flow-on effect to regional economies. We have not done any work on that at this stage.

Senator O'BRIEN—Is the 6c a litre on the average price, including the 6c on market milk?

Mr Luz-Raymond—That would be on the average price.

Senator O'BRIEN—What are the average prices now?

Mr Beauchamp—That is a little difficult to answer because it depends on each farmer's type of production. For example, Mr Purvis said that his average return is about 31c a litre. I have a predominantly Friesian herd, and we have some Jerseys in the herd. Our average butterfat production for last year was 4.03 per cent. Our protein production was 3.3 per cent and I averaged 28c a litre.

Senator O'BRIEN—Are those the sorts of figures you are working off for this survey? I am trying to get a picture here.

Mr Beauchamp—Those are the sorts of figures we are working off.

Senator O'BRIEN—Would your production costs be around the average?

Mr Beauchamp—Yes. We did a survey two or three years ago of production costs. We are not able to do that every year, as it is too expensive for us, but I would be quite happy to take some figures out of that and supply them to your committee, if you would like to see those. It is costs of production, according to various regions within South Australia—remembering, of course, that they are two or three years old.

Senator O'BRIEN—It may be more useful if you could give some sort of comparison of average cost increases over the period between when the survey was taken and now.

Mr Beauchamp—We will see if we can do that.

Senator O'BRIEN—Mr Luz-Raymond, you are saying there is a distinct possibility that a little over a quarter of the producers in the state would exit the industry. Is it likely that their production would be picked up by other producers in the state?

Mr Luz-Raymond—That is the worst case scenario. Operating on the premise of the worst thing the enemy can do to you, we would see 25 to 27 per cent or perhaps more. Some of that production may be picked up by others in the industry within the state and some may be picked up interstate, but there certainly would be losses of that magnitude initially.

Senator O'BRIEN—Can you tell us anything about the debt structure of farmers in the state? That has been another issue for us. Some people have said, 'If we can get a restructure package, it will allow people to make a big dent in their loans so that their operating costs could be reduced.'

Mr Beauchamp—That is one choice we would all be able to make. It could well be that if we have a high debt structure there may be other things we could do on our farms that will reduce our cost of production. The debt structure is pretty high. I think with those cost figures we did give some idea of the debt structure.

Senator O'BRIEN—But you can supply that later.

Mr Beauchamp—I think we may be able to supply something along those lines. I am not sure of that; we will if we can.

CHAIR—If you can, that would be very helpful to the committee.

Mr Beauchamp—I think we have to be careful of saying the restructure package may necessarily be used just for debt restructure. I know on my farm there are other things that I would be doing before that which will make my farm a little more efficient. We can learn to live with a lower price, if deregulation is going to mean a lower price, which I think it is.

Senator O'BRIEN—Is all the milk from South Australia processed here or does any find its way into Victoria?

Mr Luz-Raymond—Approximately 20 per cent flows eastward. It depends on demand. There are times when the factories in Adelaide—National Farmers and, to a certain extent, Dairy Farmers Group—have indicated that milk from Murray Bridge flows out of the state east. About 20 per cent is picked up by companies that operate outside of South Australia.

Senator O'BRIEN—Is it ever the case that milk comes from Victoria into South Australia?

Mr Luz-Raymond—There may be a small amount but it would be insignificant. It is only for localised requirements.

Senator O'BRIEN—Are the transport costs significant between the processing plants in Victoria and dairy farmers in this state?

Mr Luz-Raymond—We have done some analysis on transport costs. Basically, milk can be transported from Adelaide to Sydney and Adelaide to Melbourne. Adelaide to Melbourne is probably in the region of 4½c per litre and perhaps a bit more for Adelaide to Sydney. There is certainly nothing stopping raw milk being transported those distances through the tanker system, and companies from time to time do that.

Senator O'BRIEN—So that is the cost without backfreight?

Mr Luz-Raymond—I believe so.

CHAIR—I would like to come back to the restructure package. What I want to ask you is illustrated by some evidence that Mr Purvis—and also Mr Beauchamp—gave and that is the whole issue of what banks might do in the light of farmers getting a restructure package. Concern has been expressed in other states about what they might do, and there is some evidence that it is already beginning to happen.

We agree with you, Mr Beauchamp, that the restructure package—particularly if we want to maintain production in, say, a state like South Australia—will depend on those farmers who remain being able to be more efficient and not just retiring debt. Have you had any indication from the financial sector that in fact they will not go to dairy farmers with debts and expect all of the restructure package to simply be used by them to retire all of the debt?

This is an issue that could defeat the purpose of the restructure package itself, and I am concerned to try to see the effect of the restructure package. There is such a dependence on

the restructure package: everywhere we go it is clear that without that we are looking at, in your words, a 'catastrophe'. I am trying to see just how effective the restructure package would be and to factor in some of those unknowns, although they will probably be known on 2 July.

Mr Luz-Raymond—As an association, we have spoken at length to the head office of the Primary Industry Bank in South Australia, to the Commonwealth and to the National Australia Bank. We are soon to speak to Bank SA. The consensus across the three banks that we have spoken to so far is that they would expect farmers who stay in the industry to look at long-term planning—that is, to look at a five-year plan—and there would not be pressure to have all that money go on debt reduction. It would be on a case-by-case basis, depending on the particular circumstances and the criteria that the bank had laid down.

We are not in a position to tell the banks that they should or should not do certain things, but we have been given general assurances that they see the restructure package as a positive thing, provided the farmers who are left within the dairying industry certainly do some long-term planning—some five-year strategic planning. The banks and our association agree that is one of the fundamentals that needs to be done. If that is done by the farmers, the banks and our association agree that that will show the best places in which to put the restructure package resources.

One of the initiatives that we have taken on as an association and one of the initiatives that the banks are now assisting us to push with our farmers is to undertake a program called Dairy Business Focus, which basically gets the farmers to a position where they can see their strengths and weaknesses, whether they actually should be dairying into the next millennium into this deregulated environment. The banks are quite keen for that to happen and out of Dairy Business Focus should flow a long-term strategic planning process for farmers. What we are looking at in five years time or so is a dairy farm with \$2 million worth of assets—any one of the farms which does not have a reasonably good business plan, I think, is doomed not to succeed—so the banks and us are pushing that.

CHAIR—Can I commend your association for having those conversations—they certainly have not been had in all the states—and I think that is probably a tick for you for having done that. The other issue, which is a follow-on from that, is that of the sale of farms and of cows. I guess it is a regional thing. In some areas where farming land is desired for other purposes anyway, there is no problem with selling farms, but in some areas where dairying is probably the only industry there has already been a downturn in the market for farms, both in trying to sell them and also in the prices received. Have you any comment to make about that in terms of South Australia?

Mr Luz-Raymond—Again, the survey done in 1998 reflects the reality of the situation. Region by region it will differ. Some dairying land may not be used for anything else apart from dairying, so if there has to be a sale there perhaps the price will be depressed. Some amount of land may go to vineyards or other agricultural or horticultural pursuits. It would be very difficult to say at this stage. It will be what the market will bear at that stage.

Mr Beauchamp—My farm is on the swamps of the Murray River and is one of those places that can only produce milk. At the moment that is the only thing that we can do

profitably. I suppose we could produce beef, but it would be at a very reduced income. Already my property is lower in value. I think it is likely that along the Murray River dairying will need to continue, because that is all we can do. There is a very strong likelihood that values will probably decline further.

CHAIR—We have that kind of evidence in. It depends a lot on the region. Some areas are close to major cities and hobby farmers and residential movement into those areas means the values are going to be quite okay. Of course, the other problem which we cannot get at is the loss of agricultural land, which is a big issue. Thank you both very much for that evidence. It has helped the committee immensely.

[11.57 a.m.]

ELLIS, Mr Ronald Weston, Manager, Industry Development (Cattle and Intensive Animal Industries), Department of Primary Industries and Resources SA

RONAN, Mr Glenn Stuart, Principal Economics Consultant, Cattle and Intensive Animal Industries, Department of Primary Industries and Resources SA

CHAIR—Welcome. We would be very grateful if either or both of you would like to make some opening comments, and then we can have a conversation.

Mr Ellis—Thank you. We have not presented you with a written submission. We are here today at your invitation and we would be very willing to try and answer any questions you might have of us. My role and Glenn's role is to work with the dairy industry on a number of issues. Principally, so far as you are concerned, I am responsible for the department's work in reviewing the Dairy Industry Act in South Australia.

The act is being reviewed for two purposes. First of all, it is necessary to review it because, within the act itself, there is a review timetable which has to be adhered to. So the whole act is under review for that purpose. We are also required to review the act for the purposes of the national competition policy, which looks into matters to do with the behaviour of the act insofar as price and regulation of supply and so forth is concerned. We are doing work which is in compliance with the national competition policy. The review itself is in progress; we are about halfway through. We have been in quite an intense consultative and data gathering phase. In the next three weeks or so we will be expecting to receive a report from private consultants who are doing the public benefit test and work to do with economic assessment pursuant to the national competition policy aspects of the review. We are required to finish that by 6 September and have a report before our minister by then.

CHAIR—Mr Ronan, do you wish to make any comments?

Mr Ronan—There has been discussion already this morning about your interest in dairy farm business data. Ron has already referred to the fact that we have been gathering and forwarding to our consultants, Bowman & Richards Associates, who are working on the public benefit test as part of the national competition policy aspect of our assessment of the Dairy Industry Act.

I say at the outset that some of the best data that is currently available has been gathered as part of a Dairy SA project from a subcommittee called the Farm Business Analysis Subcommittee, of which I am a member. Consultancy work for that group, Dairy SA and the Farm Business Analysis Committee, has been done by Scown Consulting, which have received information from 118 dairy farmers from the various regions within South Australia. I have that data with me now; that is information which I would be happy to forward to your committee.

CHAIR—It would be very useful to us if you could do that; we would be very grateful for that. If there are no further comments, I ask Senator O'Brien to start with questions.

Senator O'BRIEN—What are the changes that will need to be made? You may tell me that you are still finding out what the changes are that need to be made to comply with national competition policy, but if you can tell me now I would appreciate it.

Mr Ellis—The changes that are to be made in relation to national—

Senator O'BRIEN—In terms of regulation in South Australia.

Mr Ellis—The act in South Australia enables the minister to set prices for various classes of milk and milk products and it also enables him to establish an equalisation arrangement whereby farmers are able to participate in the market for any milk that has a regulated price attached to it. In South Australia at the moment—this is putting it crudely—the price for the liquid milk market is controlled and is recommended to the minister by the dairy authority of South Australia. The dairy authority also has recommended and maintains communication with the minister over the equalisation arrangements that allow dairy farmers to participate in the premium that applies to the liquid milk market.

Our policy has been to shadow the reviews that have occurred interstate, particularly in Victoria. We have deliberately not gone ahead and tried to lead the way on this issue, because we believe that the Victorian industry—being so large and influential in the Australian dairy industry—as it has shown, is capable of determining what will happen. It is quite clear that both industry and government in Victoria intends to deregulate their liquid milk market. We in South Australia have already witnessed some influence in the liquid milk market by Victorian manufacturers, particularly UHT milk coming into Adelaide. We know that South Australia could not maintain a regulated market for liquid milk in the face of competition from a deregulated market in Victoria. So we have been very careful to keep in time with and just a little behind the Victorians in relation to this particular issue.

Senator O'BRIEN—In terms of the farm gate price impact of deregulation, do you have any comments to make about the South Australian Dairy Farmers Association submission presented this morning?

Mr Ellis—I have not read their submission.

Senator O'BRIEN—They say a three to six per cent reduction range.

Mr Ellis—The consultants that are doing the public benefits test have been asked to look into questions of deregulation for us on a number of points. They include giving us an estimate of what the impact of deregulation will be on the price of milk at the farm gate. We are asking them to look at whether there are going to be any shifts in supply profiles in the South Australian dairy industry and, if there are, then what are they? We are looking to them for some information about the social impacts—regional economic impacts—of deregulation, because we believe that there is sufficient heterogeneity in the South Australian dairy industry to indicate that the impacts will not be evenly spread and that some farmers in some regions will find it rather easier to manage their way through this, whereas other farmers in other areas, perhaps allied to different processes, will find that they are in a much more difficult situation—that the impacts of price and so forth will be more serious for them. We expect that there is going to be a significant hurt from this.

The consultants have given us, through their consultation with industry, some indications of what they believe will happen but unfortunately I am not able to give you the definitive figures to date because they have not finished their report. The last time we met was about a week and a half ago and they were going back to do more work. They are using the Australian dairy industry model, which has been built by Professor MacAulay at the University of Sydney School of Agricultural Economics. It is, we believe, easily the best and most proven model of the Australian dairy industry. The job of the consultants is to fashion that model so that it focuses on the South Australian dairy industry and gives us an indication on those matters that I have just mentioned we are interested in. We are not just interested in the public benefits test. We are interested in what the impact of deregulation will be and how government and industry should prepare and react to those possible changes.

Senator O'BRIEN—When is it expected that this work will be completed?

Mr Ellis—We are expecting a final report to come out in the third week of August, and we then have about a fortnight to review that with the consultants and to have the final report in our minister's hands by 6 September.

Senator O'BRIEN—Is there an intention to make that public?

Mr Ellis—Yes, it will be made public. It will go to the minister, and I suppose the minister then has the right to say, 'We wish to have you look at this or that particular aspect, because we are not happy about it.' But eventually it will be placed within a green paper, which will be an official document of government, which is going to look at the whole review of the Dairy Industry Act—not only the price and equalisation arrangements but also those to do with industry structure, food safety and other aspects that the act now accommodates, because some of those will need to be continued. The green paper will cover all of those things, including the consultant's report. That will then be circulated for the public and we will be holding some meetings to allow people to comment on the green paper.

Senator O'BRIEN—Are there any so-called property right issues for dairy licence holders in South Australia—access to equalisation programs for market milk?

CHAIR—You do not have a quota system?

Mr Ellis—No, we don't. We do have licences. All dairy farmers, processors and milk vendors are licensed. The principal reason for those licences is for food safety purposes. They have to build premises that are compliant. We also have a close tie between those licence conditions and AQIS export orders. So they are really to do with food safety. The access to the market milk premium is managed through the South Australian Market Milk Equalisation Committee Ltd. That body, which is a representative body of both producers and processors, has an agreement, which is approved by the minister, which allows access to the market milk premium by every dairy farmer on a pro rata basis—in effect a pooling system, where the premiums for good milk are pooled and then distributed to all dairy farmers on a pro rata basis.

At the moment the market milk sector in South Australia is about 20 per cent of our total milk output. Every dairy farmer, therefore, has about 20 per cent of his or her milk priced at the premium rate for liquid milk. That is, crudely, how it works. So the equalisation arrangement is a pooling arrangement. It is basically a money flow mechanism that allows everyone to participate. In that sense there is not a property right in the market milk premium, as there is in Western Australia and Queensland and New South Wales, for instance. Whereas in Western Australia the property right is capitalised in a piece of paper, in a certificate or something that shows that a person has a quota right, here the capitalisation is in the value of all farms because they reflect the fact that higher incomes can be obtained in this farming system through access to the market milk premium.

So the question of compensation and the liability of the state and so forth is rather different here in South Australia and is more akin to that which applies in Victoria than the other states I have mentioned.

Senator O'BRIEN—In terms of payments to the state for adherence to national competition policy, can you tell us anything about the basis for the payment as you would understand it? That is, does it compensate the state or allow the state to compensate those affected?

Mr Ellis—No, it does not. There is no tie between payments to states for complying with the NCP and compensating farmers for the loss of access to a premium market, as deregulation would suggest.

Senator O'BRIEN—None stated.

Mr Ellis—None stated, no. There is certainly none recognised in South Australia.

Senator O'BRIEN—Has there been any indication to the South Australian government that individual farmers might contemplate actions to recover some compensation if regulation is removed?

Mr Ellis—I have not received any official comment or suggestion from the dairy farming sector that such an action may be taken. Probably that matter has not been seriously addressed by the dairy farming sector either. So whether there is an intention there or not I really cannot say. We are mindful of that. I have recently asked our legal counsel to look at the matter with our Crown Solicitor's office to see whether the state does in fact have any liability. The precedence for compensating parties that are dispossessed by virtue of changes in regulations or statute is known in other jurisdictions. We understand that and have knowledge of that. But I am not aware of any liability that has been shown where a matter of the type we have where people are dispossessed of a right to a market in the same way that exists in South Australia would be a compensatable issue. It is something that I am not sure has actually been tested.

CHAIR—I noticed you said that you are concerned that there could be significant hurt to dairy farmers in South Australia and that at this stage we cannot quantify that because you are still having the report done. Have you any comments, however, to make on the restructure package? It is clear to us as we move around that that is seen as a kind of a

lifeline in terms of the significant hurt. Very few have said to us there will not be significant hurt. Most agree that there will be. The package is seen to be the lifeline. So do you have some comments from the point of view of the government to make about that package?

Mr Ellis—Perhaps it might be pertinent if I address the question of hurt for a moment. It is easy to do a bit of simple arithmetic and look at the average manufacturing price for milk in South Australia, the price that people get for the market milk component of their production, and to estimate what the potential price fall might be if in the future all market milk is priced at the same price as manufacturing milk. That is perhaps the total potential loss that we are looking at here. I agree with Mr Frank Beauchamp that the average weighted price for milk at the farm gate in South Australia over the last 12 months is about 28c a litre. That takes the premium into account. Manufacturing milk is around 22c—22-and-a-bit cents. The farm gate price at the moment is set at 51.12c a litre, roughly. There is an adjustment there for quality, but that's about it.

Our consultants have said that there are certainly going to be commercial pressures that are going to bring the average price of milk down; there is no question about that. When we had our last briefing with them a week and a bit ago, I must say I came out of the meeting feeling that we were facing some pretty serious adjustment issues here, even though they could not be entirely specific about their estimates of economic adjustment at that point. They have given us some insights into it and in consultations they have had with dairy farmers around the districts in the state. They can see that, if we were to see a price fall at the farm gate of an average of, say, up to 4c, we are still going to see fewer farmers. But there probably will be some increase in cow numbers and perhaps a holding or a slight increase in milk production because there will be a significant number of producers who will continue to push for improved efficiency and for higher production.

If you take an intermediate scenario of say a 4c to 6c drop, then you are likely to see fewer farmers. Something like the numbers that were mentioned by Chris Luz-Raymond are appropriate, I think. But you are probably not going to see the shift towards higher production in many places. So the quantity of milk is not likely to go up in that scenario. Production may increase or decrease, depending on individual business positions. But the overall output is not likely to climb and one would not expect it would climb against a price fall gradient of that magnitude.

If the fall is greater than 6c—and I suppose about 6c to 6½c is the maximum potential—then we will see considerable falls in total farmer numbers. Certainly, cow numbers would be expected to fall and the total output of milk would also decrease. Just where it will be is anybody's guess, but whatever it is there are certainly going to be fewer participants in the industry, and for some of them there will be considerable adjustment issues.

The other thing about the question of adjustment and what is ahead is that we are simply talking about the impacts of deregulation; that is, the simultaneous removal of the domestic market support scheme supported by the federal government and the state regulations that support the market milk price and equalisation arrangements. However, you have to take into account that the world market for milk and milk products is in fact moving in an unfavourable direction. In South Australia, more than any other state, we have seen an increase in the supply of milk over the last five or six years. There has been considerable

investment by farmers in milk production. Our production profile has actually been on the increase for some time.

On top of that, we have to consider the potential impacts of changes in the value of the Australian dollar. The Australian dairy industry interacts freely with the international market. The model that we are using to look at the industry enables us to look at these factors simultaneously. I must say that we would be concerned to see any continued softening of the international market for milk. Also there is the possibility in the future that the Australian dollar will actually strengthen as other economies strengthen. We will see an improvement in commodity prices which will see the Australian dollar strengthen, if history is to repeat itself in that arena.

The overall picture is one which has these three factors all at play. We could be in for some pretty significant changes in the dairy industry as a result. I did not answer your question about the restructure package. I did want to say something about the price pressures that we can see occurring.

CHAIR—It is very important to us to get that picture. It is critical if we are to get a total picture. I do not know if Mr Ronan would like to comment on the economics of the restructure package and its adequacy. One of the ping-pong matches we have had around Australia is trying to work out who actually pays the 10c a litre in the end. It has been interesting. We have had different evidence about that, depending on where we are. Have you had a chance to look at the economics of the package, whether it is going to be adequate or not and those sorts of questions?

Mr Ronan—We have looked at the package and commented to our minister, the Deputy Premier, on the package. I will refer to the package in a general way. It seems to me that there are three elements or perspectives of the package and its purpose which might be identified. Firstly, it appears to be an attempt by the industry to extend the premium of the benefits of regulation that have pertained in the past. Secondly, another view of the package could be that it is a compensation for loss of ability to continue to get access to those benefits. A third perspective would be that it is an adjustment offer to the industry to help in the transition process, as referred to by other speakers this morning.

Mr Chairman, you asked the question about the adequacy of \$1.25 billion for the dairy industry. It is interesting to perhaps note that the industry itself indicates very firmly that nothing less than \$1.25 billion would be adequate. We can read into that observation that it may not achieve the second aspect that I have just referred to, that is, the compensation aspect. There may be a state or states which will not accept an offer less than whatever their share is of that \$1.25 billion to dispense with their quota arrangements which enable not only their farmers but investors beyond dairy farmers to participate in the quota arrangements and the premiums which are attached to access to a separated market for drinking or market milk. If the position of that state or those states is that the offer simply is not good enough, then it will not be adequate to achieve the fundamental need for a package to work of all states and the federal government agreeing on the package.

CHAIR—That is a very helpful answer, because that is what we are wrestling with in this committee, as well as the other issues. The focus comes back to the package continually because of how critical it is in the debate. That is very helpful.

Mr Ellis—Can I add something on the issue of the package. We see most of the key issues in the package that have to be resolved as being within the Commonwealth's jurisdiction. We have indicated to the federal minister that we are certainly prepared to cooperate with him and other state and territory ministers in resolving the issues that have to be resolved to put that package in place. There is nothing in the package, as far as South Australia is concerned, that we would find difficult to agree with the Commonwealth on.

That is simply stating that really the state does not have a lot of issues to resolve. We would be quite prepared, for example, to dismantle the aspects of our legislation simultaneously with the other states on the enactment of Commonwealth legislation in order for the package to be operating. Although we have not been asked this, I am sure we would be prepared to use resources of the dairy authority and the data that they have, for instance, which would be necessary to identify the farmers who qualify for payments under that package arrangement, and some of the administrative issues that would be required from the state. I am sure that we would look favourably upon any reasonable request to support the package. From the state's point of view, we really do not have a big issue with the package. It does not have any major financial aspects for the state and we can probably do the administrative part that we would be required to do.

CHAIR—I presume from your answer that you would agree that \$1.25 billion free of any tax implications would be the minimum required?

Mr Ellis—I do not think that my department or my minister has actually determined what a minimum will be. That has been very much a matter between the various state dairying organisations, the ADIC and the Commonwealth government to determine. We have not actually been a party to any discussions about what a minimum package would be. I understand from Mr Frank Beauchamp and from discussions I have had with Mr Pat Rowley that \$1.25 billion was seen to be an acceptable package from the point of view of all of the state dairy farmer organisations.

CHAIR—We certainly will need to talk to the ADIC ourselves at probably one more Canberra hearing. Thank you very much for your evidence. I commend you for coming. Not all state governments have cooperated in allowing their state departments to appear. It is very helpful and very valuable to us to get your perspective, because it does round off the understanding the committee then has of the industry in each state. We are very grateful that you came.

[12.30 p.m.]

CLARK, Mr Rodger (Private capacity)

CHAIR—Welcome. Do you have anything to say about the capacity in which you appear?

Mr Clark—I am a dairy farmer from a place about halfway between Mount Gambier and Millicent.

CHAIR—This is a written submission that you have made to the committee. We thank you very much for that. We would be grateful if you would like to make some comments and then we can ask some questions.

Mr Clark—I am not going to be able to get through most of the things in the time I have; I will just highlight some of them. I think there is a need for a change in the dairy industry, as I state there at the start. Farmers are generally uptaking of new technology, et cetera, but I think there is a need for the sharing of market milk throughout Australia. Victoria has done it. South Australia has done it, as you have heard from the other speakers. The fact that there are quota systems in some states is a problem for them, and it should be left to them to organise how that should be got out of. Victoria brought theirs out in the last few years.

As we know, farm incomes are going to drop. John McQueen, the Chief Executive Officer of the Australian Dairy Farmers Federation, made the statement that he expected all dairy farmers' incomes to drop, but not the price to the consumer. The production of a million litres in South Australia works out to be around \$47,500. That is just a market milk share. In Victoria, on their seven per cent, it is about \$19,855.

Farm costs just keep rising. I have not specifically put any down there as such. On the flow-on effects of a loss of income, if you look at the production in the south-east of South Australia where there are 190 dairy farmers, on the latest figures—which are 12 months old now—there were 29,075 cows. Using the average production of 5,812 litres, if you drop 5c a litre off that, you are looking at about \$8.5 million which is lost to this region. I have been reliably informed that production is increasing in this area to around 21 per cent. That brings production over 200 million litres. If you look at a 5c cent drop there, you are looking at possibly an increase in excess of \$10 million. I think the effects on rural and regional Australia are fairly high. Also, if you use the UDV figures in their submission to the Productivity Commission's inquiry into rural and regional Australia, they expect 3,200 dairy farmers in Australia to pass up and, using the flow-on effect of two to one, you can see the number of jobs that are going to be lost there.

One issue that I really want to bring up, which I do not think has been mentioned anywhere, is farm safety in relation to the effect deregulation could have. Reduced price means that farmers are going to have to produce more to maintain themselves, if they are going to. It is going to increase their workloads, or the reduction in income will mean the

shedding of labour unit—whichever occurs. Farmers will be forced to work longer hours for the same or less return. Farmers already put in long hours. Increased workloads will mean more tired farmers, which will compromise their safety. Every farmer dreams of the time when he or she will be able to afford to employ someone and make life easier. We all know that people who are tired and under increased workloads are prone to make mistakes in regard to safety. For a farmer, there never seem to be enough hours in the day, or is it that the returns do not allow them to be able to afford to make the days longer?

When I started about 22 years ago on the dairy farm I am on now I milked about 125 cows, and I always dreamed that before the year 2000 I would have a full-time sharefarmer and would not have to work full time on it. I have now better than doubled my production, I have a sharefarmer with me, and it still looks like I am not going to get there at this rate.

One has to ask where the money from deregulation is going, all the market milk share. I think that has been covered. It has been stated that there is between \$400 million and \$450 million in Australia. One has to ask what is going to happen to it. Dairy farmers are being told to expect a reduction in income. Before the removal of regulation back in 1994 in South Australia, the retail price of milk was \$1.08, and by 1998 it had gone up to \$1.38. In that time the price to the dairy farmer had gone up only 4.8c. In both New Zealand and England, deregulation of the dairy industry saw a fall in incomes and an increased cost to the consumer. Who was the winner? It definitely was not the farmer and it definitely was not consumers.

Dairy farming is an intensive form of agriculture, and production per cow and per hectare is increasing as dairy farmers embrace technology. They know that they must be sustainable and look after the land which they use. Despite what a major Victorian co-op is reported to have stated, I do not think there would be any dairy farmers still hand-milking. There definitely are not any in the south-east of South Australia. I believe that one of the Victorian dairy companies said that there were inefficient dairy farmers still milking by hand.

CHAIR—We heard that, but we have not found out where they are yet. We have been looking.

Mr Clark—For a company to make that claim, it does make you wonder.

CHAIR—It made us wonder.

Mr Clark—With respect to property values, there does not appear to be any form of agricultural production that can return the sustainable production that dairying can. Land used for sheep, wool or fat lambs, beef production or cropping will not generate the income for a family to live on. This will result in devaluing the farms and the dairy—which is a major asset on a dairy farm—will be of negligible cost.

We have opening prices at the moment from some companies of 15.8 per cent down to seven per cent and five per cent. There is one company that says they are going to open at the same charges, but there are catches to that one too.

CHAIR—That is for manufactured milk.

Mr Clark—Yes, for manufacturing milk. The only fixed guarantee that dairy farmers have is the farm gate price on market milk at the moment. One of the things I wrote here is, ‘Have you been shopping lately?’ A bottle of water costs more than milk. It is reported that a major Victorian dairy co-op is now selling bottled water at \$1.40 while they are selling their milk at \$1.35 to \$1.38 per litre. Maybe the water we use to irrigate would be better value added by just putting it in plastic bottles. If you look at soft drink, a 600-millilitre Coke costs \$1.80. You can buy a litre of milk more cheaply. Milk is still the cheapest drink on the market and it is the most nutritious.

This leaves us with one option. We know that Victoria is going to deregulate and that that will cause a whole lot of things. With deregulation, farmers are expected to produce more for less and maintain a lifestyle. The only way that they will have a hope of doing this with the removal of the farm gate price for market milk will be to receive help in the form of the restructure package and refinancing which will allow them possibly to replace dairies so that extra cows and increased production can happen and in a more efficient manner. I know that that is one of the things I need to do on my place. Whether I am going to be able to do it, I do not know. Deregulation of the Australian dairy industry is going to reduce the income of all dairy farmers in all states which in turn is going to have a large impact on rural and regional Australia. Someone between the farmer and the consumer is going to collect this lost income. We are all being told that it is a level playing field, but Australian farmers are asked to play uphill all the time.

I went back and looked at my 1998 milk statements. For that year, the average price was 29.983c for every litre of milk I produced. The figure for 1997-98, with manufacturing and city or market milk put together, was 30.8507c per litre. I have been told that for two other dairy farmers in this area their income per litre is around 28.6c.

CHAIR—In the written submission, you say that the total milk price you are receiving is 24.9c. You said 29.4c. Could we check that?

Senator O’BRIEN—He said 29.9c.

Mr Clark—Are you referring to the last page?

CHAIR—Yes.

Mr Clark—They are the figures that I pulled out of my milk statement for the year 1989-90. Across the top there, the July average was 21.157c. The lowest that year was August at 17.93c. It does hit a peak in April of 52.868c. The main reason for those increases is that we get an order incentive in February, March and April, plus the fact that lower milk production generally across the state means that the market milk share is increased. That is where that 24.983c comes from.

CHAIR—After we have had your evidence, we might check your figures with you. Senator O’Brien, would you like to ask a question.

Senator O’BRIEN—WThat presentation covered the things I might have asked.

CHAIR—It was pretty comprehensive.

Senator O'BRIEN—With the clarification of those figures, that would address the issues I might have asked. The only issue you might like to address is what sort of debt structure farmers such as yourself are confronted with at the moment and how you see the restructure package addressing what might be your debt needs in the future.

Mr Clark—On my farm, as I said, I have better than doubled my production. To maintain that I have to rebuild my dairy. I cannot physically get the cows into that dairy any more—the vats are not big enough, and all the rest of it. If the industry went on as it was, I was going to be able to afford the debt and I could see my way to making the improvements to where, hopefully, I would be able to employ someone, an extra labour unit, and ease my workload. Without a restructure package, the drop is going to come. It would be virtually impossible to do it without some sort of help.

CHAIR—You were talking about property values. Have you seen any loss of value in properties? Have there been sales of farms recently which have shown a drop or is the value holding up at the moment?

Mr Clark—One cannot say that there has been a value drop. The only thing I can say is that I know there are two dairy farms on the market within a five-mile radius of my place. I think the main reason they are having problems getting a buyer is: would you buy a dairy farm not knowing what the milk income is going to be next year?

CHAIR—My answer is no. Thank you very much for your evidence, Rodger. It is very valuable. Thank you also for the written material.

[12.47 p.m.]

DOMAN, Mr Peter Francis (Private capacity)

ROBINSON, Mrs Angela (Private capacity)

CHAIR—Welcome. We have a statement from you. Did you intend to read this statement?

Mr Doman—Pretty well.

CHAIR—It will become part of the record anyway, but we are happy for you to comment beyond that. Whichever way you want to make your presentation, we will listen carefully.

Mr Doman—Thank you for the opportunity to make this presentation. Both Angela and I have taken a keen interest in our industry over a fair period of time. I would like to relate some things to you and, in our opinion, the real importance of the package. I will start with a bit of background and Angela is going to talk about the consequences of deregulation.

As you have already heard, the south-east consists of almost 200 farms producing 200 million litres of milk, which has an estimated value of \$55 million. It employs 750 full-time people, both in on-farm production and in processing, with an estimated flow-on effect of another 1,500 positions. Up until two years ago, the area relied on two manufacturers—Dairy Vale and Kraft Foods. Neither were interested in new suppliers. Effectively there was no competition because Dairy Farmers could not change factories. The result was that, even though there was a regulated farm gate price of between 20 and 30 per cent of the milk sold as market milk and paid for at the regulated price, the total amount paid—that is, the bundle price paid to farmers—was less than or equal to the Victorian price. In other words, even though our percentage was around the national average, the effect was that without competition we were actually paid around the same as Victoria was paid anyway.

To us, this clearly indicates that companies were either covering their inefficiencies in their manufacturing and milk production or paying the farmers less to give themselves a commercial advantage. Whatever the reason, it resulted in farmers in south-eastern South Australia being paid about 6c a litre less than they would have been if those manufacturing prices had been competitive across the border. The attitude of the companies at the time resulted in a bit of a wind down or a stagnation in the industry right across the state and especially down here. It has only been in the last few years that growth has taken place.

Certainly in the last two years, where we have had four companies operating in the south-east, there has been tremendous growth, and there are a couple of reasons for that. One is that those farmers who sat without having a lot of confidence in the industry, basically because the companies did not give them a lot of confidence, have now taken the bull by the horns, so to speak. You just heard Rodger say that he has doubled his production in the last few years, and that is a pretty typical story of what has happened here. But it has taken a lot of money, a lot of capital, to make that happen. As well as that, people have come from outside because they realise the potential of this area. To us, it has as much potential as any

area in this country. It is a wonderful area. That has just given you some background of where the industry has come from in this region. I will hand over to Angela to talk about the consequences, as we see it, of deregulation.

Mrs Robinson—As we are all aware, the Victorian government has made the announcement that they are going to continue along the line of deregulation. As Ron Ellis pointed out earlier, this will inevitably decide the direction that other states will need to take. It does not matter what we do; we cannot change that direction. For the other states not to follow would have disastrous consequences with market milk sales and those sorts of things. With the South Australian dairy farmers experiencing deregulation, there will be a significant drop in incomes, as all of the speakers have already noted. Although 20 per cent of our milk is sold as market milk at the regulated farm gate price, this actually accounts for approximately 40 per cent of our income. There will be a loss of income stability when this premium is removed under deregulation. This, coupled with the fact that the price paid for manufactured milk this season is suffering a considerable decrease, equates to a drop in the farm gate value of several million dollars.

When dairy farmers do not have money to spend, it will cause them to reduce their input costs in all sorts of ways. This in turn will affect service industries and most businesses in the region. The viability of many businesses will be threatened and the effect on the community will be great. It is vitally important that we ensure an orderly transition into this deregulated environment.

It is essential that the national transition package comes to fruition, and there must be an adjustment period where dairy farmers have the option to find a way to stay in the industry or, if they choose to exit, are able to do so with some dignity. Staying in the industry may require buying the block next door for expansion. It must be remembered that, in a depressed economic environment, it may be difficult to do this, particularly if the banks have lost confidence in the industry. The option of restructuring financially may also be difficult without the support of the banks.

I would just like to stress that, without the transition package, none of these options would really be available to dairy farmers, and I think we can all recognise the dire consequences to the community as a whole both financially and socially. I do not think it takes much thought to realise what effect that could have on even a big regional centre like Mount Gambier.

CHAIR—Would you be able to spell out the social impacts a little bit more for us? Are you aware of stress on farmers in this area? Some years ago there was a rural women's group in this area that was looking at that very aspect. I do not know whether that is still going. I wonder if you would be able to spell that out just a little more for us.

Mrs Robinson—There is often stress in the dairy industry anyway because of the nature of our business, but when we are in difficulty financially it puts an enormous stress on families. Looking at the social impact, if it affects not only dairy farmers but also businesses, and people are put out of work, it is not hard to realise the consequences of that socially because people do not have the ability to continue with the lifestyle that they have been used to. It could create quite a lot of hardship.

Senator O'BRIEN—You were talking about an adjustment period and exit assistance, and I was wondering if you were aware of any rural industry parallels or precedents that you could draw the attention of the committee to in that regard.

Mrs Robinson—I have a vague recollection of some assistance to the wharf industry where there is some levy on each container that goes through the wharf to enable that industry to restructure.

Senator O'BRIEN—So, if it is to parallel that, are you saying that perhaps the Commonwealth government should have some sort of package in addition to the restructure package?

Mrs Robinson—No, I am not saying that. If it is possible to get this transition package into action, I think that would go a long way towards helping us through this.

Senator O'BRIEN—So essentially you are supporting deregulation but only with a restructure package?

Mrs Robinson—Deregulation is inevitable now. We are going to experience that anyway, and if we do not have some sort of a restructure package like the one that is being worked on at the moment all these things I have talked about are likely to happen and cause great hardship to the area.

Senator O'BRIEN—That is consistent with other evidence that we have received. Other than putting in place some sort of milk levy system to fund the restructure, do you see another role for the Commonwealth?

Mrs Robinson—I do not see a likelihood of anything other than the package.

Senator O'BRIEN—I guess you only get what you ask for these days. What do they say—that it is the squeaky wheel that gets the grease? There seem to be a number of issues running around the country as to who is entitled to claim what at this time and whether the restructure package should be subject to certain conditions as to its availability. This is your area's opportunity to say what you think without necessarily being constrained by what you feel might be imposed on you.

Mr Doman—The only comment that I would like to make on that is that, once you start to pick and choose, once you decide who may or may not get the package, then basically somebody is playing God and you then have the haves and the have-nots. The reality is that in any industry there are going to be people who other people deem do not need it. I really think that, if there is going to be a package, for ease of the workings of the whole thing, it should probably be across the board.

CHAIR—Thank you very much for your evidence. It is really important to this committee to get the evidence from farmers who are actually on the ground and milking the cows. That is why we have included not only peak bodies but also farmers like yourselves. Your evidence is very valuable to us.

It is intended that, after lunch, we have an open comment session that would be available for anyone. I hope I did not put anyone off before. We really do want people to make comments if they would like to. We do not want 20-minute speeches, we are saying three to five minutes, but that is a bit flexible. If there are any people who would like to make comments after lunch, we would be very happy to hear from you. We have about one hour after lunch. Let me assure you that those sorts of comments are as valuable as any others that we receive because they come very much from the heart.

Proceedings suspended from 1.01 p.m. to 1.59 p.m.

CLIFFORD, Mr Colin Gordon (Private capacity)

CHAIR—Colin, would you like to come forward. In what capacity do you appear? You are a dairy farmer, I presume.

Mr Clifford—Yes, I am a dairy farmer at Mount Burr. I would like to apologise for there not being more dairy farmers attending today. I think this is a very important meeting because you people in the Senate are going to have the final say on this deregulation package, but dairy farmers would have been saturated with meetings in the last fortnight or three weeks down here—there seems to be one every second day—and, being dairy farmers, you cannot spare the time away.

I started dairy farming 20 years ago milking 60 cows. I am now milking 140 cows producing about a million litres a year to make the same living. Those cows have gone from about 4,500 litres per head to nearly 8,000 litres per head this year. My total income is 28c a litre. I am in a fairly high cost dairying area—we are very wet—and my costs are 21c a litre. So I am working on a margin of about 7c a litre. At all the meetings I have gone to recently, I have been told that I will probably have to milk 200 cows to stop in the industry. To do that, I would probably have to build a new dairy, and the package would probably pay for about half of that. In my opinion, the package is not enough. I live fairly close to the Mount Burr mill, which went through a restructuring program three or four years ago. A lot of the workers there jumped in and took their one- and two-year salary packages. You talk to them today, and it was the worst thing they ever did.

I am disappointed that the local rural councillor Valerie Monaghan was not invited to this subcommittee today as she could have passed on to you the social impact deregulation is having on the area. I believe she has 30-odd more dairy farmers on her books. She has released some media releases about this in the papers. I am sure she could have put a lot more into this meeting. I was a stock and station agent for about 12 years before I went into dairying. Farmers would be the last people to say what their financial position is. They will bleed and do a heck of a lot of things before they realise that things are so bad that they cannot continue. A lot of them do a lot of silly things because of that.

CHAIR—If you could give us her name and phone number later, we will contact her and get some more information.

Mr Clifford—I think that would be a very good thing. She is a very nice person, and there are two rural councils in the Naracoorte-Mount Gambier area. The social impact on dairy farmers is going to be horrific.

CHAIR—We want to know about that, so we will contact her.

Mr Clifford—I did not come here planning to make a speech. That is about all I have to say.

CHAIR—It is good for the committee to get that feedback, so we are pleased that you did come and speak. We are not going to ask you questions; we do not want to put that on you.

Mr Clifford—I do not mind answering if you want to ask me any questions.

CHAIR—Thank you very much for your evidence.

[2.04 p.m.]

HODGE, Mr Desmond James (Private capacity)

CHAIR—Welcome. We are very happy to hear from you.

Mr Hodge—I am a dairy farmer from Burrungule, which is halfway between Mount Gambier and Millicent. In the south-east in the last 12 months or two years, we have had irrigation worries. If we want to expand to water more of our land, we cannot because we have been put on restrictions. If I go and buy my neighbour's property that does not have a water licence, it is of no value to me. I am surrounded by pines, but I cannot buy the pines out. So I am stuck there.

I have recently married, and my wife has a son who is very interested in the dairy industry. He is only young; he is 24 and he has just finished his diploma in farm management. He would have liked to have been here today, but he feels that the dairy industry does not hold the potential for him that it did five years ago, so he has decided he had better start looking for work elsewhere, which is not good. He is very keen, and he has spent a lot of money on education. With irrigation, we could develop and go further but, without the irrigation, we will just have to go back to more of a seasonal milking, which may not be viable with deregulation. That is all.

CHAIR—Thanks, Des. That again is a different perspective, and that is why we are keen to have people come to talk to us.

[2.06 p.m.]

GILMORE, Mr Byron Keith (Private capacity)

Mr Gilmore—I am a dairy farmer from Eight Mile Creek, which is about 28 kilometres south of Mount Gambier. You cannot go much further south or you get wet. I was not going to make a submission, but after listening today no-one has looked at the youth in the dairy industry. We are all talking about reductions in price and doom and gloom. What is going to become of the youth? There is no money available in this package for retraining or anything like that, and I think there could be an opportunity for money to be channelled into dairying areas—if youth are put off the farms or something like that—just for retraining and looking after the youth.

I have been in the industry a fair while. Over the years the federal government has given assistance to our industry. In 1975 the federal government gave dairy farmers an interest free loan to buy refrigerated bulk tanks, and that was paid back over I think five years. They also gave a fixed interest loan for farmers to do farm build-ups—I think it was in about 1980—and it was a \$5,000 loan with a set interest rate. I think it was paid back over 20 years, but it may have been over five years as well.

I think there is an opportunity for other funds to be set up outside of the restructure package for farmers. Some farmers are going to have a go, and I think that funds could be made available to assist these farmers. The ones that will have a go will be the younger farmer that needs that assistance. He might want the restructure moneys to restructure some debt, but he also will want to gear up his farm. I think there could be an opportunity for more funds to be made available in that area because they are going to provide employment and it is going to be good for the industry eventually. Thank you for the opportunity.

CHAIR—That is another perspective, Byron, so thank you very much.

Mr Gilmore—There is one question I would like to ask the Senate inquiry. What happens from now on to the information that we have given? Where does the whole system go from here?

CHAIR—I will give you my answer and Senator O'Brien might add to it. A lot of questions have arisen out of these hearings that we want to put to the federal government, to the ADIC and probably to the department, so we will be having a hearing in Canberra to put to them a lot of the questions that people are asking and that we do not have clear answers for yet. That will be the next hearing that we will have.

I am also going to talk to some dairy farmers in North Queensland because we could not get there as a committee. We will then write our report, which will be tabled at the end of September. The federal government will respond to that, and I presume that the next stage, as far as the federal government is concerned, may be legislation for a restructure package. What we as a committee have done will inform the debate in the Senate, where we will look very carefully at that legislation in the light of all the evidence that we have heard in this inquiry. The other thing that is beyond our control is what the various state governments do. I do not know if that answers your question.

Senator O'BRIEN—The only matter that I possibly would add is that, in the meantime, all of the material that we have collected is on the public record—presented to the public under parliamentary privilege around the states. That is available in hard copy or via the Internet so that all of the confusion out there may prompt people to spend some time researching that and looking at the different points of view. We are hopeful that that will give people a better idea of the industry's future—where it is headed, making the assumptions about deregulation that everyone is.

CHAIR—There being no-one else who wants to speak, we have enjoyed your company. That brings the formal part of this hearing to an end. Thank you all for your attendance.

Committee adjourned at 2.12 p.m.

