

Department of Agriculture, Fisheries and Forestry

Committee inquiry: The impacts of supermarket price decisions on the dairy industry

Date Held: 10 March 2011

Question Taken on Notice

Senator Eggleston asked Australian Bureau of Agriculture, Resources, Economics and Sciences (ABARES) officers appearing as witnesses at ‘The impacts of supermarket price decisions on the dairy industry’ hearing held on 10 March 2011 the following question (found on the Inquiry Hansard page E 19 – 20) which was taken on notice:

CHAIR—Thank you. I will ask you an opening question. What dairy subsidies are currently in place in other countries? Are they temporary or permanent and has the department done any work on the effect of similar or such subsidies on the Australian dairy industry?

Mr Morris—I think it is fair to say that internationally the dairy market is subject to quite a range of subsidies. It is well known that there are high levels of subsidies in Europe, Japan, the United States and Canada, for example. There is a range of measures that apply in those markets which influence the domestic price in those markets and can flow on to international markets. We are also aware that at times both the European Union and the United States apply export subsidies to milk products, although they vary depending on international prices at the time.

There has been a range of analysis of those dairy subsidies over time and their impact on global markets. If the committee would like it, I am sure we can find past ABARES reports which we could give you the references to, on notice.

Answer:

ABARES has undertaken analysis of agricultural policies, including dairy industry policies, in a number of countries, including the United States, the European Union and Japan. ABARES has also undertaken analysis of the potential impacts of liberalisation of trade policies for dairy products. Attachment 1 provides a brief description of dairy policies in these countries together with references to past ABARES analysis.

Attachment 1: International dairy policies and key ABARES references

United States

Prior to the 2008 US farm bill, US Government support for dairy mainly took the form of support for milk prices. This support was underpinned by tariff quotas on imports of dairy products and export subsidies for some products. Those arrangements were complemented by pricing arrangements for milk under federal and state milk marketing orders. In the 2008 US farm bill, a major change was made to how minimum price support is provided for the dairy industry, with support prices set for major bulk processed products – cheddar cheese, butter and non-fat dry milk (skim milk powder) rather than milk. Tariff quotas on imports of dairy products continue to underpin higher US domestic prices.

Since 2002, milk producers have received support payments from the US budget under milk income loss contracts (MILC). These payments are made on quantities up to a given amount of milk marketed per farm, for months when market prices fall below a benchmark level.

Export subsidies are paid on exported dairy products to bridge the gap between internal US prices and world prices when US prices are higher than world prices. The United States used exports subsidies for butter, skim milk powder and cheese in 2008. Prior to 2008, the United States had not used export subsidies for dairy products since 2003.

ABARES' assessment of US support arrangements (including dairy policies) under the 2008 farm bill is provided in:

Roberts, I., Haseltine, C. and Andrews, N. 2008, *The 2008 US farm bill: what is in it and what will it change?* ABARE Research Report 08.14 December, http://adl.brs.gov.au/data/warehouse/pe_abarebrs99001594/us_farm_bill.pdf

European Union

Traditionally, support to the EU dairy industry has been provided by high levels of price support. Price support arrangements have been underpinned by tariffs and tariff quotas which restrict imports, export subsidies, and intervention purchasing arrangements where intervention agencies are required to purchase specific dairy products (butter and skim milk powder) when internal EU prices fall to an administratively set support price (the intervention price).

Since 1984, EU milk production has been subject to quota restrictions. The levels set for the quotas have limited the extent to which the high support for dairying in the European Union was permitted to stimulate production and exports.

As part of the European Union's 2003 'mid-term review' of the Common Agricultural Policy (CAP) the support prices for dairy products were reduced over the period 2004 to 2006. Compensation for the price cuts was provided – the amount of compensation was determined on a rate per tonne of milk quota and was incorporated into the single payment scheme.

- The single payment scheme was also introduced with the 2003 mid-term review and incorporates payments for a range of commodities. Under the single payment scheme, commodity based payments were aggregated and paid on a single farm or area basis. The payments are not related to current commodity production or prices.

As part of the European Union's 2008 'CAP health check' milk production quotas were increased by 1 per cent per year from 2009-10 to 2013-14 ahead of their elimination in 2015.

ABARES' assessments of EU support arrangements (including dairy policies) are provided in the following publications:

Roberts, I. and Gunning-Trant, C. 2007, *The European Union's Common Agricultural Policy: a stocktake of reforms*, ABARE Research Report 07.13, August, http://adl.brs.gov.au/data/warehouse/pe_abare99001381/rr07.13_eu_cap_full.pdf

Jotzo, F., Roberts, I., Andrews, N. and Warr, S. 2001, '2003 EU CAP reforms: a step forward on a long journey', *Australian Commodities*, vol. 10, no. 3, September, pp.381–9, http://adl.brs.gov.au/data/warehouse/pe_abarebrs99000987/PC12582.pdf

Japan

Japan's dairy industry is protected by tariffs and tariff quotas on imports. Border protection has a major influence on imports of dairy products. In cases where the barriers to imports are through tariffs alone, as with cheese, imports have penetrated the market more successfully than where the barriers involve tariff quotas and state trading, such as with skim milk powder and butter.

ABARES' assessment of Japanese agriculture and agricultural policies (including dairy policies) is provided in the following publications:

Roberts, I. Warr, S. and Rodriguez, G. 2006, *Japanese agriculture: forces driving change*, ABARE Research Report 06. 24, Canberra, December, http://adl.brs.gov.au/data/warehouse/pe_abare99001334/arr06.24_japan_agric.pdf

Bull, T. and Roberts, I. 2001, *Agricultural trade policies in Japan: the need for reform*, ABARE Research Report RR01.5, May, http://adl.brs.gov.au/data/warehouse/pe_abarebrs99000651/PC11864.pdf

Multilateral liberalisation

In addition to the above country specific assessments, ABARES has also undertaken analysis of the potential impacts of liberalisation of world dairy markets. The relevant ABARES publications are:

Shaw, I. and Love, G. 2001, *Trade liberalisation in world dairy markets*, ABARE Current Issues 01.1, February, http://adl.brs.gov.au/data/warehouse/pe_abarebrs99000686/PC11981.pdf

Shaw, I. and Love, G. 2001, *Impacts of liberalising world trade in dairy products*, ABARE Research Report RR01.4, May, http://adl.brs.gov.au/data/warehouse/pe_abarebrs99000650/PC11862.pdf