DAIRY PRODUCE BILL 1986

Date introduced: 7 May 1986
House: House of Representatives
Presented by: Hon. John Kerin, M.P., Minister for Primary Industry

DIGEST OF BILL

Purpose

To establish new marketing arrangements for the Australian dairy industry, involving reform of the Australian Dairy Corporation (ADC) and the introduction of new support mechanisms.

Background

In May 1985, the Government introduced 4 Bills into the House of Representatives to reform dairy marketing arrangements (but not to reform the ADC) in a package that became known as the Kerin Plan (see the Digest for the Dairy Produce Market Support Levy Bill 1985). The introduction of reform proposals was in response to the fall in returns to the industry which was primarily due to the decline in world market prices and the existing marketing arrangements. The need for reform has not diminished, since world market prices remain depressed and are not expected to improve for several years. Large stocks of dairy products in the European Community and to a lesser extent the United States and relatively weak world import demand are the main factors contributing to depressed international dairy product prices. The Bureau of Agricultural Economics (BAE) in May 1986 forecast that the average gross unit return for manufacturing milk would fall from 13.9 c/litre in 1985-86 to 13.3 c/litre in 1986-87.[1]

The existing marketing arrangements have distorted price signals to producers and encouraged surplus production and have resulted in the manufacturing milk sector being one of the most highly assisted sectors of Australian industry. For example, in 1983-84, the effective rate of assistance to
the manufacturing milk sector was 57 per cent compared with 11 per cent for agriculture as a whole and 25 per cent for manufacturing industry.[2]

There have been three plans to restructure the marketing arrangements and to increase the exposure of the industry to market forces, the Kerin Plan, the Rowley Plan and the modified Kerin Plan which is to be introduced by this Bill.

Under the Kerin Plan, the existing stabilisation and equalisation arrangements for butter, cheese, skim milk powder, whole milk powder and casein were to be replaced with a system of support payments on all manufactured dairy products exports. These support payments were to be funded by a permanent levy on total milk production (the market support levy) and a temporary levy on domestic sales of certain prescribed products (the dairy products levy). The market support levy was to finance market support payments which were meant to increase returns on manufactured dairy products exports to a target price, equivalent to 130 per cent of estimated average export returns received for each product in the most recent two years and the current year.

As the market support payments would provide less assistance than had been the case, particularly for butter and cheese, a temporary dairy products levy was to be imposed on these products to finance supplementary market support payments, which would increase the level of assistance provided above the target price.

A controversial feature of the Plan was the method of withdrawing the dairy products levies and therefore the supplementary market support payments. They were to be phased out under a formula which was designed to reduce the levies over a period of two to six years, with the time depending on the rate at which production levels and/or market milk prices declined. If production did not decline or if market milk prices rose, this form of support could have been withdrawn in just two years. The industry wanted slower and more predictable withdrawal.

The Senate substantially amended the legislation for the Kerin Plan in order to overcome what it considered to be major shortcomings. However, the Government was not prepared at that time to alter the Plan, and therefore the Kerin Plan did not pass through the Senate. Consequently the established marketing arrangements continued to operate largely unchanged throughout 1985-86. In an effort to break
the deadlock between the Government and the industry, Mr Kerin said that he would introduce a compromise plan devised by the President of the Australian Dairy Industry Conference (ADIC), Mr Pat Rowley, if the plan received 'broad industry and State Government support'.

The compromise plan, known as the Rowley Plan, had most of the features of the Kerin Plan. In particular, it proposed replacement of the existing 'equalisation' system with a system of export support payments funded by an 'all milk' levy, and abolition of export pooling. However, there were two important differences. Firstly, the adjustment of domestic prices for manufactured dairy products towards an 'undumped, unsubsidised, New Zealand import parity price' would occur gradually in five or six planned annual steps under the Rowley Plan, in contrast to the formula-based adjustments under the Kerin Plan. A second, more significant difference was the introduction under the Rowley Plan of the concept of 'preferred production' — that is, an aggregate entitlement or quota. Each State would receive a share of the national entitlement, and the States would then distribute their aggregate quota between individual dairy farmers. A special penalty levy would be imposed on sales from above-quota production in order to reduce the net return from such sales. Rowley believed that the use of quotas was the best means of achieving a reduction in production. He believed that under the Kerin Plan, dairy farmers may not reduce production in response to lower prices but may actually increase production in an attempt to maintain total returns.

The Rowley Plan failed to obtain the support of the United Dairy Farmers' of Victoria.[3] The UDV feared that Victorian producers would bear the brunt of adjustment. In particular, the UDV considered that a disproportionate share of the surplus production penalty levies would be paid by Victorian farmers, and Victoria would therefore be forced to reduce its share of national milk production. Also the UDV feared that under the Rowley Plan Victorian producers would be locked out of the lucrative NSW market milk sector. Therefore, the UDV chose to support an amended Kerin Plan.

In view of the refusal of the UDV to accept the Rowley Plan, the ADIC finally agreed in February 1986 to support an amended Kerin Plan.

There are five major differences between the marketing arrangements under the original Kerin Plan and the current package.
(i) Calculation of Market Support Rates

The current proposal provides that the support rate will be determined in different ways for prescribed and non-prescribed products. The ADC shall determine which dairy products are prescribed, according to criteria specified in its Corporate Plan. For prescribed products, the rate will normally be 130 per cent of their estimated current average export price. (A lower rate will apply where market support funds are insufficient to finance this subsidy rate).

The Corporation will now be given considerably more discretion in determining market support rates than under the original Kerin Plan. A lower rate may be specified for any particular product by the Corporation, with the concurrence of the Executive Council of the ADIC. This may occur if export prices increase to relatively high levels. Also, the Corporation will be granted discretion in determining market support rates for non-prescribed products.

A separate formula will be used to calculate the rate of market support payment when the underwriting arrangements are triggered by a price fall, as outlined below.

(ii) Underwriting

A Commonwealth underwriting payout will be triggered when the annual average export price for any prescribed product is less than 85 per cent of the export price that the BAE estimates would prevail if export prices were on their longer-term trend line. The Commonwealth's underwriting contribution would take the form of a payment into the Market Support Fund.

When this occurs, the rate of market support payment for the product will be the difference between its estimated export price and a target price - this will be 110 per cent of the longer term trend price.

(iii) Phased Reduction of Product Levies and Supplementary Market Support Payments

Levy rates established on 1 July 1986 will be maintained for 12 months. For all products other than butter and butteroil, the levies will be phased out in five
equal steps at six-monthly intervals commencing 1 July 1987. For butter and butteroil the rate of product levy will be reduced to about half its initial value by 1 July 1989, by means of five equal reductions at six monthly intervals commencing 1 July 1987. Subject to a review during 1988-89 confirming the desirability of phasing out the levy on butter altogether, the levy would then be reduced by $50 per tonne every six months until completely phased out.

(iv) Increase in Domestic Price Support Values

Under the current proposal, the domestic price support value of butter will be increased by 5 per cent on 1 July 1986 while the domestic price support value of cheese will rise 8 per cent on the same date, prior to their phased reduction commencing 1 July 1987.

(v) Suspension of Market Support Levy

The Dairy Produce Levy (No. 1) Bill 1986 will provide for the possibility of a suspension of the market support levy and hence market support payments. Any State Minister with portfolio responsibility for the dairy industry may notify the Commonwealth Minister for Primary Industry that the levy should be suspended. In the event of such notification, urgent advice will be sought on this matter from the Executive Council of the ADIC. This advice is to be received by the Australian Agricultural Council, considered, and a decision taken within 60 days of the notification being received by the Commonwealth Minister. At the end of 60 days, unless the Australian Agricultural Council by majority decision resolves that the levy should not be suspended, the levy is to be suspended as soon as practicable.

The Bills also provide for the reform of the Australian Dairy Corporation. Such reform takes account of the changes to be made in dairy industry assistance and marketing arrangements and gives effect to the Government's general policy on Reform of Commonwealth Primary Industry Statutory Marketing Authorities as described in a Paper released in January 1986.[4]

Main Provisions

For a detailed analysis of the clauses of the Bill refer to the Explanatory Memorandum.
The objective of the ADC - to enhance the profitable production and marketing of Australian dairy produce - and the functions of the ADC - all of which involve the marketing of Australian dairy produce - are specified in clauses 6 and 7 respectively.

Clause 8 provides for Ministerial directions to the Corporation; directions must be tabled in the Parliament unless there is a commercial or national interest reason why they should not be disclosed.

Clause 10 specifies the power of the ADC to deal in dairy produce. Generally the ADC may only engage in export sales but in exceptional circumstances may engage in domestic sales.

Clause 11 will require that the activities of any subsidiary of the ADC must fall within the ADC's specified functions.

Clause 16 requires the ADC's Annual Report to be presented to a meeting of the ADIC and the Chairperson of the Corporation to report on its activities and answer questions.

The preparation of corporate plans and annual operational plans are dealt with in clauses 17-22 and 23-26 respectively. Matters to be included in the corporate plan are specified; these include the Corporation's goals, its strategy for achieving its goals, its assessment of the industry's economic outlook, the circumstances in which licenced exporters will be required to disclose to the Corporation commercial information (see clause 53), and the criteria for determining rates of support for various dairy products (clause 17). The need and procedure for obtaining Ministerial approval for both plans is specified (clauses 18 and 24).

A person may not be nominated for membership of the ADC unless they have qualifications and/or experience in one of the following fields of activity: milk production; the production, sale or export of dairy produce; the operation of dairy factories or factories producing other food stuffs; product promotion; finance; international marketing; business management; law; or industrial relations (sub-clause 30(1)).
Clause 33 provides that the ADC will comprise a full-time Managing Director, a part-time Chairperson and part-time Government member, all chosen by the Minister, and 8 part-time members, nominated by the Selection Committee.

The powers of the ADC to exercise control over exports of dairy produce are provided for in clauses 51-54.

Clause 86 establishes the Dairy Industry Fund as the successor of the long-established Dairy Industry Stabilisation Fund. The purposes for which the Fund may be used will now be specified in the Act (sub-clause 88(1)), and the requirement for Ministerial approval of expenditures will be replaced with a requirement for approval by the Executive Council of the ADIC (sub-clause 88(2)).

Clause 92 establishes the Market Support Fund, into which funds from the market support levy is paid and out of which the market support payments are paid to manufacturers on export of dairy produce. The standard rate of market support payment for each dairy product will be 30 per cent of its estimated export price, although special rates may apply in various circumstances including for underwritten dairy produce, as outlined in the background section above (clauses 95-98). The Corporation will publish in advance the rate of market support payment that is to apply to each product (clause 95).

Clause 103 establishes the Dairy Produce Supplementary Market Support Fund, into which funds from the dairy products levy is paid and out of which supplementary market support payments are paid to manufacturers on export of dairy produce. Clause 105 provides that supplementary market support payments will be made whenever a market support payment is made. As with market support payments, supplementary market support payments for each dairy product will normally be a specified percentage of their estimated export price, with the percentage being the same for all products (clause 106). The percentage, and therefore the rate of payment, will be fundamentally determined by the rate of dairy products levy, which as outlined above will be progressively phased out commencing 1 July 1987.

Remarks

A reduction in the number of dairy farms over the next few years is inevitable given the existing overproduction and low returns. Decline in the total number of dairy farms in Australia has been ongoing for many
years. For example, the total number (of rural holdings with 30 or more milk cattle) has fallen from about 37,500 in 1971 to 27,200 in 1976, 20,200 in 1981, and 18,900 in 1985. Likely future adjustment was discussed in a recent article on the medium-term outlook for the Australian dairy industry. [5]

The following conclusions were drawn about future adjustment in the Australian dairy industry.

The present trend of a slow rate of exit from the industry is expected to continue. Farm numbers are projected to decline to around 16,240 by 1990 from 18,930 in 1985, with the average size of farms continuing to rise. Australian milk production should remain at around 6,000 ML until 1987-88 and then, reflecting the impact of support prices for manufacturing milk approaching import parity, output is forecast to fall to about 5,500 ML in 1989-90.

This Bill forms part of a legislative package dealing with the dairy industry. The other Bills in the package are:

Dairy Produce Levy (No. 1) Bill 1986 (Bills Digest 86/64)
Dairy Produce Levy (No. 2) Bill 1986 (Bills Digest 86/65)
Dairy Industry Research and Promotion Levy (Termination of Levy) Bill 1986 (Bills Digest 86/66)
Dairy Industry Stabilization Levy (Termination of Levy) Bill 1986 (Bills Digest 86/67)
Dairy Legislation (Transitional Provisions and Consequential Amendments) Bill 1986 (Bills Digest 86/68)

For further information, if required, contact the Economics and Commerce Group.

11 June 1986

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References


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