

Industry Plans and Dairy Support Policies in Australia

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Evolution of dairy support policies

Presentation on Australian dairy support policies:

- Two periods – industry support & policy reform
- useful when considering dairy development strategies?

Features of industry support period:

- price equalisation & underwriting of guaranteed returns
- key policy principles until mid 1980s
- Government policies controlled all stages of marketing
- but chain inefficiencies, inequities, slowed development

Then a fundamental change – phased policy reforms:

- transition to globally cost competitive industry
- stronger export focus emerged

Development constrained by support policies

Start in mid 1970s – new industry plan implemented:

- marketing arrangements for manufacturing milk
- pooling of market returns
- five prescribed products – butter, cheese, powders, casein

Government authority established to manage arrangements:

- levy on domestic sales combined with export returns
- manufacturers received average ‘pooled’ export return
- continuation of ‘equalisation’ concept from 1920s

But arrangements distorted industry outcomes:

- profitability of different products obscure
- affected approach to product marketing

Development constrained by support policies

Pooling of export returns reduced incentive for:

- market development
- plant efficiency improvements
- altering product mix
- investing in brands & export marketing efforts

In the mid 1980s a new industry development plan:

- *Kerin Plan* a turning point
- remedy deficiencies in marketing manufactured products

Industry plan has some equivalence to a DDS:

- not a complete overarching strategy – policy reform
- led to changes in fresh milk price support arrangements

Australia had a highly regulated market

In mid 1980s a national dairy market did not exist:

- artificial separation of milk & product markets
- based on Government regulations – State, Federal
- six separate markets for fluid milk
- ‘voluntary’ controls on interstate trade in milk

Fresh milk marketing fully controlled & regulated:

- production quotas
- all prices, margins were fixed
- pricing decisions based on cost of production estimates

Marketing of manufactured dairy products regulated:

- prices in domestic market set above export parity
- consumers pay more – notion of ‘fair’ price for farmers

Major policy reforms in the industry plan

Objectives of plan:

- reduce support & improve industry competitiveness

Key specific actions of industry plan:

- pooling of export returns abolished
- support to give same level of assistance to all products
- progressively reduce support to import parity
- assistance for adjustment, R&D, underwriting returns
- increase industry financed levy to fund R&D

Triggered post-farm gate rationalization:

- removed distortions to commercial behaviour
- respond to changes in world prices
- co-operatives mergers – scale in processing, marketing

More policy change in a new plan

Another industry plan developed in early 1990s:

- continued reforms to support policies
- underwriting of export returns abolished
- maximum support set at export parity prices
- annual cuts in support to 10% of export price by 2000

Adjustment to support arrangements in mid 1990s:

- triggered changes in fluid milk support policies
- some supply quotas abolished – pooling used
- gradual deregulation of post farm gate regulations
- end of trading zone restrictions on vendors, processors
- post-farm pricing controls removed

A new industry development plan in 2000

Late 1990s pressures for new industry plan:

- manufacturing milk price support to terminate
- NZ import competition - value of support declining
- implications for fluid milk price support
- commercial gains from selling milk interstate
- supermarkets wanted national distribution & pricing
- general regulatory review process

A new industry plan for year 2000:

- simultaneous end of all support – including fluid milk
- ‘over-night’ change
- industry restructuring package

Ending all support policies – a big change

Transitional assistance in restructuring package:

- structural adjustment for all producers
- exit assistance for farmers in financial distress
- program funded by consumer tax on fresh milk sales
- removed after cost of assistance recovered

Substantial structural changes in the industry:

- some farmers left the industry
- continued adjustment from effects of previous plans
- improvements in scale & productivity of dairy farms
- rationalisation of milk processors
- supply chain efficiency gains

Concluding comments

Australian dairy industry has experienced a lot of change:

- a highly regulated industry since 1920s
- deficiencies in policy support measures apparent
- a turning point in mid 1980s
- progressive policy reforms & reductions in support
- long period of industry adjustment – productivity gains
- overnight removal of all support measures

Industry emerged as a globally cost competitive industry:

- strong focus on export sales
- source of growth & industry development
- may be lessons from mistakes with policy interventions