ADDRESS BY J.C. McCOLL, DIRECTOR GENERAL OF AGRICULTURE

TO THE AUSTRALIAN DAIRY INSTITUTE

4 JUNE 1985

As this is a lunchtime address to be followed by the more knowledgeable and serious speakers all broadly commenting on the same subject, it has been suggested that I introduce a light hearted note. The subject can hardly be treated lightheartedly or else I could be accused of being frivolous. My only alternative is to tell a joke, a desperate measure I admit. I've always been dubious about those speakers who tell a joke which is completely irrelevant to their subject. The one I intend to tell has some relevance, it has a cow in it and a relevant theme or moral. The theme is "that it doesn't matter what you say, someone will always misunderstand you".

Before looking ahead, I wish to recall the recent history of the dairy industry, noting particularly its regular periods of review and cries of "crisis" which seem to occur every seven years or so. These reviews of marketing arrangements are implemented to varying degrees by a process of bargaining between producer organisations and Governments and any action following such a review has been short term and even expedient in nature.

Seldom has Government action in relation to the dairy industry aimed at solving the industry's problems in the longer term. It has been usual to treat the symptoms rather than the disease.

In November 1983 the Industries Assistance Commission released its report on the dairy industry. Some of the conclusions reached by the Commission in relation to producers and manufacturers can be summarised:

(1) "Current equalisation arrangements mask world price fluctuations differently for each product according to the relative importance of domestic sales."

(2) "Together with the allowance system, equalisation arrangements fail to encourage the socially most profitable product mixes and the selling of products in the highest return markets."

(3) "The current separation of the market and manufacturing milk sectors, and the current pricing, quota arrangements, and restrictions on interstate trade for market milk, fail to encourage milk production in the least cost regions, using the least cost production methods."

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The Commission recommended the replacement of the current Commonwealth marketing arrangements with a 20% export subsidy funded from an all milk levy. The Commission also supported the continuation of export pooling and underwriting being based on export returns. The aim of the Commission at the time was for the same level of assistance to manufacturing to be provided, to be reviewed in three years from commencement of the new arrangements.

Since the release of the I.A.C. report, the issue of dairy marketing arrangements has been extensively debated by industry and Governments. Throughout this period of debate, dairy production in Australia has increased to 6 000 million litres and export prices for dairy products have fallen.

With a substantial level of production going onto export markets, with a depressed export market situation and general thrust by Governments for deregulation, not to mention the reality of Closer Economic Relations with New Zealand, the existing marketing arrangements have been under considerable pressure. On 22 March, the Federal Government announced details of new marketing arrangements to apply from 1 July 1985. These arrangements have recently failed to pass through the Commonwealth Parliament, and .presumably will be reintroduced in the Spring session. I note David Higbed's comments on the Country Hour yesterday, apparently thinking that the Kerin Plan will go away - I would be very surprised. In summary form they involve

(1) Existing marketing arrangements disbanded.

A levy on all milk is to be introduced on 1/7/85 (maximum 45 cents/kg fat). This levy is to be used to pay export support payments for products which are exported. For prescribed products such as cheese and butter the support payment will be 30%

above the estimated average export return for product returns in the past two and the current year.

(2) Export pooling and allowances to cease.

(3) Product levies on domestic sales to apply for butter, butter-oil and cheese, to further support export returns.
These levies to be phased out over a period of 2 to 6 years, depending on the rate of industry adjustment.

(4) Underwriting of export returns at 90% of the average gross unit returns on export sales over the preceding two years and the year being underwritten.

(5) Repeal of the Commonwealth market milk legislation.

(6) Improved financing capacity for the A.D.C.

(7) Review of imports.

(8) Rural adjustment to the tune of $40m.

It is not my intention to argue the pros and cons of these new arrangements. The reality of the situation is that we have too much milk in Australia and depressed export returns. For this talk at this Conference, I will assume that these arrangements will probably eventuate in a few months time. I cannot predict if there will be any significant amendments.

I believe the S.A. dairy industry, through its own rationalisation and self regulation, is well equipped to look forward and come to grips with the market reality but must work together for survival. I am going to comment on a number of areas which I believe the industry should address. They include Marketing Manufactured Products, Factory Operations, and Industry Unity.

Marketing Manufactured Products

The very nature of the marketing arrangements is designed to promote the sale of produce on the highest returning domestic and export market. I appreciate that undisciplined discounting will place an element of uncertainty into the market, but that is occurring to

some extent under the existing arrangements.

The South Australian industry produces a range of high quality fresh milk products, ice cream and large quantities of cheese. Product development and maintenance of quality will be essential if the domestic market share of S.A. dairy products is to be maintained or increased. Manufacture of non cheddar cheese for the domestic and export market (with export support) should also be pursued and milk made available to manufacturers of such products.

For products such as butter and cheese where allowances have been abolished, manufacturers will need to assess their cash flow situation in relation to their ability to store produce and sell it when mature in the case of cheese or when fresh butter is in short supply. Premiums will be able to be extracted from the domestic market and careful marketing will be essential. In fact, there will be considerable pressure for improved marketing skills in the industry.

Market Milk

A major industry concern is the lack of protection for market milk, and the potential risk from interstate trade and discounting. This pressure is there because currently manufacture milk returns approximately 12 cents per litre to the farmer and market milk returns approximately 30 cents per litre.

South Australian market milk is priced below that of the other States and with the transport distances involved, we are at a competitive advantage. State Governments cannot prevent interstate trade in market milk or control its price, and if it occurs, dairy farmers, processors and milk vendors must be prepared for it. What should we do?

- Our fixed price under the Metropolitan Milk Supply Act may need to be altered to a maximum price, to allow the S.A. industry to compete on price if necessary. The concept of regional price fixing as being used in N.S.W. to combat interstate trade is also worthy of consideration.

- The S.A. industry is in the best position to service S.A. supermarkets and I believe the S.A. dairy industry (processors and milk vendors) must work closely with the supermarkets and not against them.

- A very real pressure exists in S.A. from the South East dairy industry. The South East should not be ignored and must be closely involved in S.A. industry based marketing strategies involving market milk.

- Being the well organised industry you are, I also realise that you have your own contingency plans for combating interstate milk.

Factory Operations

With the need to reduce Australia's milk production from 6 000 million litres, to somewhere in the vicinity of 5 000 million litres, throughput pressures will be placed on dairy factories. Depending on where most of the adjustment takes place, the viability of individual dairy factories could be threatened and some factory closures in Australia are inevitable.

S.A. dairy factories have undergone extensive rationalisation in recent years and are well equipped for the challenges ahead.

The issue of rational sourcing of market milk and the benefits from seasonal calving are being addressed in a separate paper to this conference by Dr. Harvey. I believe the industry should investigate this issue with the Department of Agriculture and the Metropolitan Milk Board to assess the extent to which it will improve the viability of the S.A. dairy industry.

I realise that you as an industry are approaching the future with some concern. Not only concerning the likely new marketing arrangements but the operations of the Metropolitan Milk Equalization Committee Limited are being questioned and there are pressures within the S.A. industry arising from the South East.

All these issues need to be addressed by the S.A. industry as a whole. Industry unity and effective marketing will go a long way towards ensuring survival for the S.A. dairy industry in the years ahead.

The future is therefore in your hands and will depend on the ability and all elements of the S.A. industry to communicate and work together.