



***ECONOMICS AND INDUSTRY  
STANDING COMMITTEE***

**INTERIM REPORT ON THE  
SUSTAINABILITY OF THE DAIRY  
INDUSTRY**

**Report No. 6**

**2003**

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Economics and Industry Standing Committee

Interim Report on the Sustainability of the Dairy Industry

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SUSTAINABILITY OF THE DAIRY  
INDUSTRY**

**Report No. 6**

Presented by:

**Mr A.D. McRae, MLA**

Laid on the Table of the Legislative Assembly  
on 28 August 2003



## COMMITTEE MEMBERS

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## **COMMITTEE'S FUNCTIONS AND POWERS**

The functions of the Committee are to review and report to the Assembly on -

- (a) the outcomes and administration of the departments within the Committee's portfolio responsibilities;
- (b) annual reports of government departments laid on the Table of the House;
- (c) the adequacy of legislation and regulations within its jurisdiction; and
- (d) any matters referred to it by the Assembly including a bill, motion, petition, vote or expenditure, other financial matter, report or paper.

At the commencement of each Parliament and as often thereafter as the Speaker considers necessary, the Speaker will determine and table a schedule showing the portfolio responsibilities for each committee. Annual reports of government departments and authorities tabled in the Assembly will stand referred to the relevant committee for any inquiry the committee may make.

Whenever a committee receives or determines for itself fresh or amended terms of reference, the committee will forward them to each standing and select committee of the Assembly and joint committee of the Assembly and Council. The Speaker will announce them to the Assembly at the next opportunity and arrange for them to be placed on the notice boards of the Assembly.



## TERMS OF REFERENCE

### **Inquiry into the sustainability of the dairy industry in Western Australia**

The Committee to inquire into the sustainability of the dairy industry in Western Australia and investigate -

1. the financial impact of deregulation on Western Australian farmers, processors, wholesalers and retailers;
2. the impact of deregulation on the supply of milk and price to consumers;
3. reforms that will enhance the sustainability of the industry including any appropriate market intervention strategies, additional industry assistance and potential for market developments;
4. the issue of equitable participation by all industry stakeholders; and
5. any other matters considered relevant by the Committee.

In accordance with Standing Order 249 (4), the member for Warren-Blackwood, (Mr Paul Omodei, MLA) and the member for Bunbury, (Mr Tony Dean, MLA) have been coopted to participate in the Economics and Industry Standing Committee's inquiry.



## **CHAIRPERSON'S FOREWORD**

Both sides of this House agreed that something must be done to better understand the immediate past of the dairy industry, its current condition and that of all of the stakeholders involved and, more importantly, where it will go in the future. This was the key to the debate that led the Legislative Assembly to agree to a motion on the 25 June 2003 to refer an inquiry into the sustainability of the dairy industry to the Economics and Industry Standing Committee.

This interim report provides an important clarification of the Committee's terms of reference, and also offers a brief summary of the Committee's activities to date.

With the close of submissions to this inquiry less than 2 days ago, the full depth of proposals is yet to be plumbed. However, the number of submissions clearly highlights the interest in the subject of the inquiry. An initial examination shows a diversity of opinion across and within all sectors and regions of the dairy industry. Significant among the submissions are comments from service providers operating all sectors of the Western Australian dairy industry.

The Committee is studying all submissions, and a full analysis will be provided in its final report.

This inquiry is not solely for the benefit of farmers and producers in WA, although I, and members of my Committee, are intent on identifying reforms that might relieve the very real pressures being felt by the industry's stakeholders.

This inquiry is looking forward to a future, sustainable industry, not backwards to a regulated and sometimes inefficient past.

The inquiry will work for all Western Australians and for the benefit of the whole community. Our objective is to ensure, the Parliament can put proposals to government to assist, intervene and/or promote the industry. Western Australia must guard against losing the economic base of this industry, not only economically, but also the history and social structures that exist in the many communities that rely to a significant extent on the dairy industry.

MR A.D. McRAE, MLA  
CHAIRPERSON



## **CHAPTER 1 INTRODUCTION**

### **1.1 Inquiry background**

On Wednesday 25 June 2003, the Legislative Assembly resolved, following a motion from the Member for Warren-Blackwood, Hon. P. D. Omodei, MLA, to refer an inquiry into the sustainability of the dairy industry to the Economics and Industry Standing Committee<sup>1</sup>.

#### **(a) Before deregulation of the dairy industry**

In early 1999, the Australian Dairy Industry Council (ADIC), the industry's peak policy body, approached the Federal Government with a plan for a national approach to the deregulation of the drinking milk sector in conjunction with the end of manufacturing milk price support.

On 28 September 1999, the Federal Government announced it would implement the Dairy Structural Adjustment Program (DSAP). At the same time both state and federal governments acted to remove legislation specific to the dairy industry. All states repealed legislation governing sourcing and pricing of drinking milk, and wound up the state milk authorities that administered pricing controls, from 1 July 2000.

In Western Australia, the domestic white milk market was highly regulated by State legislation that mandated a premium farm gate milk price, controlled entry to the market through quotas and vested control of the milk supply with the Dairy Industry Authority.

The DSAP imposed a (retail) Dairy Adjustment Levy of 11 cents per litre on consumers of products marketed as dairy beverages to fund a quarterly DSAP payments (over eight years) to Australian dairy farmers. The payments are intended to assist dairy farmers adjust to a deregulated market with minimal social and economic disruption.

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<sup>1</sup> Legislative Assembly, Hansard 25 June 2003, pp. 9246-9259

## **(b) The dairy industry after deregulation**

Deregulation has made the Australian dairy industry the least regulated in the world. Processors and supermarkets have moved from a position of little market power in the domestic dairy supply chain to become the dominant players. The manufacturing sector is now fully exposed to international markets that are sometimes highly distorted by the trade policies of the European Community and United States.

The Western Australian dairy industry has received more than \$150 million in Federal and State Government restructure assistance since July 2000. This assistance has been a combination of direct grants to farmers, grants to dairy processors and transfer of public assets to farmer owned companies.

About 25% of Western Australian dairy farmers have left the industry since July 2000, with total milk production being reduced by approximately 5% in the subsequent two financial years.

Comparisons between milk prices before and after deregulation are made difficult by the complexity of the payment system. Current milk prices received by farmers vary depending on the milk processor supplied, the proportion supplied under a domestic market contract, time of year and milk quality. In broad terms, the premium for the formerly regulated market milk sector over manufacturing milk has been reduced from 24 to 10 c/L. Consumers have been the major beneficiaries of deregulation of the dairy industry, both at the national level and in Western Australia. Recent supermarket milk discounting has increased consumer benefits in Western Australia.

### **1.2 Inquiry terms of reference**

In commencing the inquiry, the Committee has carefully considered the terms of reference that will guide this inquiry, and it is important that the intent of words used are clear.

A key in the title of the inquiry is “sustainability”. While it was agreed that the term sustainability encompasses all three elements of the triple bottom line (economics, environment and society), and all elements will be considered by the Committee, economic and social aspects are considered to be of most significance in this inquiry.

The Committee also discussed the interpretation of “deregulation”. The Committee considers that the deregulation process within the inquiry’s terms of reference means the period from 1 July 2000 when all states repealed legislation governing sourcing and pricing of drinking milk, and the state milk authorities, which administered these controls, were wound up.



### **1.3 Inquiry progress**

Since the Assembly referred the inquiry to the Committee at the end of July, the Committee has held five meetings, received 70 submissions, visited four farms and dairies in the south-west meeting with 11 farmers and producers, and met with a major processor in Perth.

The Committee will undertake visits to dairy farms, dairy processing plants and relevant industry bodies in Victoria, ACT and New South Wales in the first week of September.

The Committee has initially scheduled two hearings, one in Perth on Wednesday 17 September 2003, and one in Bunbury on Friday 19 September 2003, to gather information relevant to the dairy inquiry.