Managing Change in the Australian Dairy Industry

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Brief Summary of Changes

- Our industry has been undergoing significant change for the past 30 years
- In 1970-71 we had 48,000 dairy farmers producing 7.5 billion litres of milk.
- Then the UK entered the EU and we lost our major export market.
- By 1980-81 we had 22,000 dairy farmers producing 5.3 billion litres of milk.

Brief Summary of Changes (cont.)

- At this time the industry had a major decision to make about whether to continue to shrink to be a domestic industry behind domestic support and tariff barriers or do whatever was necessary to increase productivity and grow exports.
- The decision was to grow the industry and it was a fortuitous one.
- In the mid 1980's Australia and New Zealand decided to enter into a free trade agreement.

Brief Summary of Changes (cont.)

- We now had to get efficient against New Zealand.
- In 1986 the Government introduced new legislation which was to cut domestic support from then 48% above world prices to 30% above world prices in 6 years.
- At the end of the 6 years industry negotiated an agreement with Government to see support cut completely over the next 8 years to 30-6-2000.
- However, we still had state based farm gate pricing for fluid milk.

Brief Summary of Changes (cont.)

- In 1993 all Governments signed up to a competition policy agreement that required all State based regulations to have a public benefit test applied.
- When these regulations were reviewed in Victoria (a state with two thirds of Australia's milk production) it was concluded there was a negative public benefit from the regulations and the Victorian Government was obliged to remove them.
- The farmer organisation and manufacturers in Victoria supported the removal of the regulations.

What Did We Do?

- All States, through the ADF agreed that deregulation was commercially inevitable if Victoria deregulated.
- All States recognised removal of regulations in Victoria would cause real hardship in all States.
- After many difficult negotiations it was agreed by farmers, with support from dairy companies to seek the removal of regulations in each State <u>if</u> the Federal Government would put in place a restructure package.
- Once we got support from all sections of industry we went to Federal Government with a united view for a A$1.25 billion package that would see deregulation in all States.

What Has Happened?

- Farmers have invested heavily in their farming operations.
- Our farmers used their restructure payments wisely:
  - 80% converted the restructure package to an up front lump sum payment through a facility the industry set up completely separate to Government and they used it in these ways:
    - 24% for farm development reasons
    - 26% for debt retirement
    - 3% for off farm reasons
    - 27% for other reasons

What Has Happened? (cont.)

- The restructure package has not only assisted with farm business restructuring, it has also providing an important opportunity for some to leave the industry and for their assets to be purchased by neighbours.

What Has Happened? (cont.)

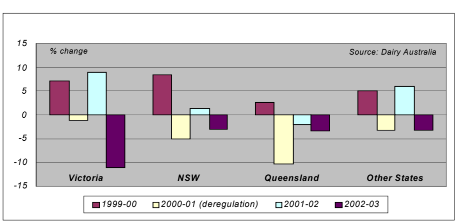
- The most significant thing that has impacted on the industry since deregulation has been the worst drought in 100 years.
- The average farmer lost $76,600 (about $400 per cow) in 2002 - 2003 with those in the worst affected regions suffering losses of more than double that or $180,000 or about $900 to a $1,000 per cow.
- The losses in the worst drought affected regions were of the magnitude of 15% to 20% of farm value or 20% to 25% of farm equity - no business recovers quickly from such financial shocks.
- The drought has caused the first major reduction in production in 30 years and led to many farmers making a decision to leave dairy farming.

Change in dairy farm numbers since deregulation

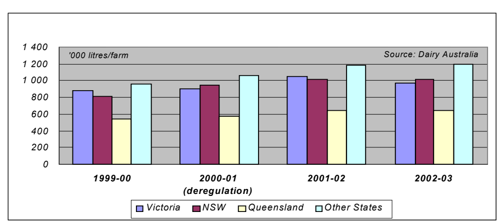
Year ending 30 June		1998-99	1999-00	2000-01 *	2001-02	2002-03 ^
Victoria	number	7 926	7 806	7 559	7 079	6 801
	% change	- 2.0	- 1.5	- 3.2	- 6.4	- 3.9
New South Wales	number	1 771	1 725	1 391	1 323	1 290
	% change	- 2.5	- 2.6	- 19.4	- 4.9	- 2.5
Queensland	number	1 589	1 545	1 305	1 152	1 125
	% change	- 3.2	- 2.8	- 15.5	- 11.7	- 2.3
Other States	number	1 870	1 812	1 582	1 494	1 438
	% change	- 3.4	- 3.1	- 12.7	- 5.6	- 3.7
Australia	number	13 156	12 888	11 837	11 048	10 654
	% change	- 2.4	- 2.0	- 8.2	- 6.7	- 3.6

* Poor season and deregulation on 1 July.
^ Widespread drought conditions.
Source: Dairy Australia.

Change in milk production since deregulation



Changes in milk output per farm since deregulation



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Pre and post deregulation farm gate price in Aud cents/litre

	DrinkingMilk Income in 1999 - 2000 (cents/litre)	Manufacturing Milk Income in 1999 - 2000 (cents/litre)	Weighted Avg. Milk Income in 99 - 00 (cents/litre)	Milk Income in 2002 – 03 (cents/litre)
NSW	47.7	21.8	32.57	32.8
Victoria	42.7	20.7	22.15	24.8
Queensland	54.9	21.9	36.82	34.8
Sth Australia	44.6	22.2	28.00	30.3
West Australia	45.5	24.6	34.23	28.2
Tasmania	44.3	18.9	20.91	25.9

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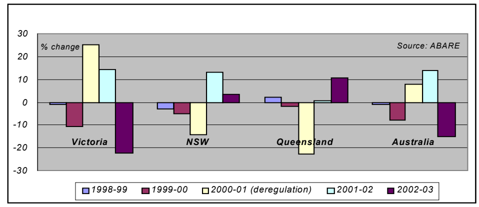
Change in gross farm returns for milk, Aud cents/litre



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Pre and post deregulation consumer price for drinking milk

	June 2000	July 2003
Farm Gate Price	50 cents	30 cents
Retail Price	$1.30	$1.25
Market Milk Levy	0 cents	11 cents
Difference	80 cents	84 cents

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Conclusion

- Our experience demonstrates that farmers can adjust if the signals are strong and consistent.
- Slow strong signals for change can strengthen an industry.
- On again off again signals lead to confusion about investment and weaken an industry.

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Thank You

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