AUSTRALIA’S DAIRY REFORMS
LESSONS FOR CANADA

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By Paul Earl
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Australia’s Dairy Reforms
Lessons for Canada

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Paul Earl has worked in the transportation and grain industries for over 25 years, in both the private and public sectors. His work has included economic and policy research on western grain transportation and marketing issues, with practical development and implementation of supply chain management procedures in the grain industry. He spent five years with the federal government in a small interdepartmental body called the Grains Group where he was involved in detailed policy research in grain transportation issues. Subsequently, he was Director of Corporate Planning for United Grain Growers, where he prepared a number of submissions to, and represented the company before, a series of Royal Commissions in grain transportation. He then worked for 10 years at the Grain Transportation Agency (GTA), where he developed and implemented the Agency’s logistics control procedures for grain movement, and managed the Agency’s data and information processing function. He returned to United Grain Growers in 1989 spending two years in their country operations department, managing their property functions and participating in planning the future of their country elevator system. He then took the position of Manager, Corporate Affairs, where he had responsibility for government and industry liaison functions. For the last five years, he has been policy manager with the Western Canadian Wheat Growers Association. He is also a Professional Associate of the University of Manitoba Transport Institute. He has an undergraduate degree in Civil Engineering and a Masters degree in Transportation Planning and Economics from the University of Toronto. In 1992 he completed a doctoral degree at the University of Manitoba in agricultural economics and history.

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Executive Summary

Australian dairy farmers, like Canada’s, have enjoyed the benefits of administered prices which exceeded those which would have prevailed in the open market. Unlike Canada, only the price of fluid milk destined for human consumption was controlled, whereas milk used production of dairy products traded freely. Farmers received a subsidy on the milk they sold to the manufacturing sector.

Over the 1990s, Australia embraced free markets and competition as the basis for its overall economic policy, and in 1999 the dairy industry approached the federal government with a plan to end the existing regulated regime and to provide a transition to a deregulated market. In 2000, both the administered price and the subsidy were terminated, and three programs were introduced (the Dairy Structural Adjustment Program (DSAP), the Dairy Exit Program; and the Dairy Regional Assistance Program) to provide financial assistance to farmers to adapt, and, if they wished, to exit the industry.

The DSAP provides the greater and more significant assistance to farmers, but was not intended to fully compensate for the effects of removal of the old program. While it is estimated in this paper that the old program was worth approximately $4.56 billion (Australian) to farmers, the total expenditures under the new are estimated to be about $1.7 billion over the eight years that it will be in effect. The new program will be financed by a levy on sales of fluid milk to consumers.

The initial impacts of the new program have been a significant reduction in the farm income and profitability, which, however, was substantially offset by the new programs. There is preliminary evidence that the retail price of fluid milk for direct consumption has declined.

This report presents some salient statistics on dairy farming in Australia, outlines the previous price support and subsidy regime, reviews the main features of the new program that was introduced, and describes some of the major impacts of the change.

Of ultimate interest to this study is the potential applicability of the Australian experience to Canada’s Supply Management system, and whether the Australian model could provide a framework for compensating dairy farmers when international trade pressure finally results in the demise of this system.
DEREGULATION OF THE AUSTRALIAN DAIRY INDUSTRY
LESSONS FOR CANADA¹

Introduction

Australian dairy farmers – somewhat like, but not identical to, Canada’s – have enjoyed the benefits of administered prices higher than those which would have prevailed in an open market. Unlike Canada, Australia controlled only the price of fluid milk destined for human consumption, referred to as “market milk,” whereas so-called “manufacturing milk,” used for the production of dairy products like cheese and butter, traded freely. In addition to administered prices for fluid milk, farmers also received a subsidy on the milk they sold to the manufacturing sector.

During the 1990s, the Australian government moved to embrace free markets and competition as the basis for policy across all sectors of the economy. Towards the middle to late 1990s, as part of this overall policy shift, attention turned to the dairy industry. In 2000, both the administered price and the subsidy were terminated. To mitigate the effects of the change, an adjustment program was introduced which provided some financial assistance to farmers to allow them to adapt or, if they wished, to exit the industry.

This report presents some salient statistics on dairy farming in Australia, outlines the previous price support and subsidy regime, reviews the main features of the new program and describes some of the major impacts of the change. It should be noted that about half of Australia’s processed dairy products are exported, in contrast with Canada where processed products are largely consumed domestically.

Of ultimate interest in this paper is whether the Australian experience could have potential application in Canada. The Supply Management system has been under pressure in trade talks for many years, and is now protected by a tariff-rate quota system. Proposals just released by chief World Trade Organization agricultural negotiator, Stuart Harbinson, would reduce these tariffs by 45%.

It seems inevitable that the Supply Management system will eventually require change. The Australian model may provide a framework for Canada to dismantle its dairy marketing system and to provide compensation to dairy farmers for the loss of the entitlements which they currently enjoy.

¹ The data used in this report came from the sources cited at the end of the paper. The data are generally from the 1998 to 2000 period, but data displayed in each of the tables in this report are not always taken from the same year. In some cases, noted where they occur, the year is not provided by source reports. Overall, in order to provide a comprehensive picture of the industry, data had to be taken from different references, and the scope of this study did not permit more extensive data collection that might correct any inconsistencies. The data therefore provide only a general picture, and should be used with care. The conclusions drawn at the end of this study are not affected by year-to-year inconsistencies in the data.
Industry statistics, and an overview of the old regulatory regime

Under Australia’s former regulatory regime, assistance to dairy farmers was extended under what was called the “Domestic Market Support Scheme” (DMSS). This method, as noted above, imposed controlled prices on fluid drinking milk for domestic consumption and provided subsidies on milk sold to processors.

There were major differences in this plan’s effects on states. They arose both from differing ratios of market milk to manufacturing milk sold in each state, and from differing administered prices for the market milk. Table 1 shows some relevant statistics, state by state.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Statistics on milk production and prices by state</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>New South Wales</td>
</tr>
<tr>
<td>Market milk production (ml)</td>
<td>559.3</td>
</tr>
<tr>
<td>Manufacturing milk product (ml)</td>
<td>687.0</td>
</tr>
<tr>
<td>Total milk production (ml)</td>
<td>1246.3</td>
</tr>
<tr>
<td>% market milk</td>
<td>45</td>
</tr>
<tr>
<td>% of Australia Production</td>
<td>13</td>
</tr>
<tr>
<td>Market milk price -cents/ltr (year)</td>
<td>50.9</td>
</tr>
<tr>
<td>Mfg milk price -cents/ltr (year)</td>
<td>25.1</td>
</tr>
<tr>
<td>Average price -cents/ltr (99/00)</td>
<td>36.0</td>
</tr>
</tbody>
</table>

Note: Figures in the above table were taken from various sources. The source for the average price statistic in the last line was different than the source for the market and manufacturing milk prices shown in the preceding two lines. An average price calculated by weighting the latter two figures by relative production figures shown in the first two lines of the table will differ slightly from the last line. The year of the data on prices for market and manufacturing milk was not shown in the reference, but was likely 1998 or 1999.

The subsidies paid on manufacturing milk were financed by levies, paid by farmers themselves on liquid milk and by processors on manufacturing milk. The farmer levies represented an income transfer, from those farmers whose share of the fluid milk sector was relatively higher than others to those whose sales were more heavily weighted towards manufacturing milk. The processor levies were an income transfer from processors (and, to the extent that processors could pass these costs on, from consumers) to all farmers in proportion to their participation in the manufacturing milk sector.
The relative cost of the levy and subsidy system to farmers, and the benefits from it, are shown in Table 2. Note that these are state averages. The percentage of farm produce destined for each market not only varied by state, but varied even more within each state and between farms. As far as income support from the DMSS program, different farms, regions and states had come to rely more heavily than others on the inflated price of the “market milk” while others relied more heavily on the subsidies paid on “marketing milk.”

Table 2

<table>
<thead>
<tr>
<th></th>
<th>New South Wales</th>
<th>Victoria</th>
<th>Queens</th>
<th>South Australia</th>
<th>West Australia</th>
<th>Tasmania</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levies paid by farmers on market milk</td>
<td>10.13</td>
<td>10.74</td>
<td>6.98</td>
<td>3.24</td>
<td>3.38</td>
<td>1.30</td>
<td>35.77</td>
</tr>
<tr>
<td>DMSS payments to farmers on manufacturing milk</td>
<td>90.84</td>
<td>10.69</td>
<td>7.10</td>
<td>6.61</td>
<td>3.20</td>
<td>8.31</td>
<td>126.74</td>
</tr>
<tr>
<td>Net gain (or loss) from program</td>
<td>80.71</td>
<td>-0.06</td>
<td>0.12</td>
<td>3.37</td>
<td>-0.18</td>
<td>6.95</td>
<td>90.97</td>
</tr>
</tbody>
</table>

Source: SACES, all monetary figures in the tables and text of this report are in Australian dollars.

Note that, in those states where the market milk sector is the larger proportion of the overall milk market (New South Wales, Queensland and West Australia), access to the drinking milk market was controlled by quota. These quotas traded in the marketplace at prices which peaked in the mid-1990s in these three states at approximately $0.60, $0.80, and $1.20 per litre per day respectively. (ABARE1, pp. 7, 8) These quota prices indicate the value of the administered price program to dairy farmers.

Changes to the policy

As part of the overall shift in Australian economic policy towards greater reliance on competition and market forces, the federal and state governments concluded a Competition Policy Agreement, dated April 11, 1995. The guiding principle of this Agreement read that “legislation (including Acts, enactments, Ordinances or regulations) should not restrict competition unless it can be demonstrated” that the benefits outweigh the costs and there is no other way of achieving the state’s objectives. (Moran, pp. 5, 6)

The ability of each state to maintain its administered prices required border controls to ensure that milk did not cross state boundaries. This control was exercised by voluntary agreement. This agreement violated section 92 of the Australian Constitution, which prohibits actions that could impede free trade between the states. It was recognised, therefore, that the system of border controls and administered prices would not survive a legal challenge. Moreover, the state of Victoria, the largest
milk producer, with over 60% of total Australian production and the lowest percentage of market milk among the mainland states (only the island state of Tasmania has a lower percentage, see Table 1), favoured reform of the system.

The entitlements that rose out of the existing system formed the greatest impediment to change. The value of the quotas in New South Wales, Queensland and West Australia, which collectively account for about 25% of total milk production but about two-thirds of the drinking milk market, indicated clearly the value of the regulated system to dairy farmers.

In 1999 the dairy industry approached the federal government with a plan to end the existing regulated regime and to provide a transition to a deregulated market. The plan entailed adjustment payments to assist dairy farmers in accommodating the changes. In outline, the plan entailed the following:

- Repeal of the legislation which established the administered prices.
- Disbanding of the State Milk Authorities who administered the system of prices and subsidies.
- Implementation of the Dairy Structural Adjustment Program which provided payments to dairy farmers to assist in the transition to an open market.
- Creation of a new body called the Dairy Adjustment Authority to administer the new program.

The new plan provided for three programs: (1) the Dairy Structural Adjustment Program (DSAP); (2) the Dairy Exit Program; and (3) the Dairy Regional Assistance Program.

The DSAP provides the greater and more significant assistance to farmers. The following description of the main components of the two programs is taken from Appendix One of the March 2000 report of the Senate Rural and Regional Affairs Committee:

1. Payments to producers are to facilitate adjustment, and are not to compensate for the effects of the removal of the market milk arrangements.
2. To be eligible for a payment under the Dairy Adjustment Package, interested parties must have been engaged in commercial dairy production on 28 September 1999 and had an interest in a dairy farm enterprise which delivered milk in 1998/99.
3. Calculation of the amount of payment is to be based on total deliveries of milk in 1998/99 for the dairy farm enterprise in which the person had an interest on 28 September 1999.
4. The base year for determining producer entitlements will be 1998/99. ...
5. The maximum entitlement is to $350,000 ...
6. Calculation of entitlements will be at the rate of 8.96 cents per litre for manufacturing milk and 46.23 cents per litre for market milk.

The DSAP payments to producers are to be made in fixed quarterly payments over eight years and, once begun, are continued whether or not the recipient exits the industry.

The anticipated expenditures under these three programs are:
- DSAP: $1.632 billion
- DEP: $30 million
- Dairy RAP: $45 million

Clearly, the DSAP payments are the most significant part of the overall package. The package is to be funded by a consumer levy of 11 cents per litre on liquid milk which commenced on July 8, 2000, and is expected to continue for eight years.

The following very rough calculations illustrate the overall magnitude of these numbers as they will apply to the industry figures shown in Tables 1.

(1) Total payments to farmers should total approximately:

\[
(\text{annual market milk production}) \times (0.4623 \text{ per litre}) + \\
(\text{annual manufacturing milk production}) \times (0.0896 \text{ per litre})
\]

\[
= (1,666.8 \times 0.4623 + 8,148.0 \times 0.0896) = $1,500.6 \text{ million}
\]

(2) Total levies collected should total approximately:

\[
(\text{annual market milk production}) \times (0.11 \text{ per litre}) \times (8 \text{ years})
\]

\[
= 1,666.8 \times 0.11 \times 8 = $1,466.8 \text{ million}
\]

These figures illustrate roughly the calculation of expenditures and revenue for the programs and are approximately equal to the total of the figures cited above of $1.7 billion.

**Initial results of the new policies**

As a first and very rough estimate, the anticipated effect of the new policies on farm income could be calculated by assuming that, absent the administered price and before the new DSAP payments are taken into account, aggregate farm income would

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drop by the sum of (1) the decline in price in market milk multiplied by the production of market milk, and (2) the amount of the subsidy on manufacturing milk. These figures may be estimated from the numbers in Tables 1 and 2 as follows:

(1) Loss of price premium on market milk:

Taking the free market price of manufacturing milk as a proxy for the price that would prevail for under an open market, and using New South Wales as an example, the price drop in that state would be: $(50.9 - 25.1) = 25.8 \, \text{c/l}$. 

The loss in farm income in New South Wales would be the price drop multiplied by the production of market milk = $0.258/\text{l} \times 559.3 \, \text{m.l.} = $144.3 \, \text{million}$.

Performing this calculation for each state and summing the result yields an annual benefit from the administered price component of the former regime (and hence of the loss of income under the new) of $478.8 \, \text{million}$.

(2) Loss of subsidy on manufacturing milk:

From Table 2, the net benefit is $91.0 \, \text{million}$.

(3) Total:

The total estimated income loss for dairy farmers from the loss of the old regime therefore is $478.8 + 91.0 = $569.9 \, \text{million}$, or, for the eight years of the proposed new assistance program, eight times this amount, or $4.56 \, \text{billion}$.

Comparing this figure to the roughly $1.7 \, \text{billion}$ in compensation established for the new program, it is clear that Australian dairy farmers will suffer a net loss under the new system. It is also clear that the new program will not likely fully compensate farmers for the loss of the former DMSS program. Detailed figures seem to bear this out, as dairy farms experienced a significant loss in milk receipts and profitability from 1999/00 to 2000/01. Table 3 shows this decline:

<table>
<thead>
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<tbody>
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<td></td>
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</tbody>
</table>

### Table 3
Decline in milk receipts per farm from 1999/00 to 2000/01 ($ thousands)

<table>
<thead>
<tr>
<th></th>
<th>New South Wales</th>
<th>Victoria</th>
<th>Queens Land</th>
<th>South Australia</th>
<th>West Australia</th>
<th>Tasmania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk receipts per farm (1999/00)</td>
<td>245</td>
<td>226</td>
<td>193</td>
<td>294</td>
<td>351</td>
<td>209</td>
</tr>
<tr>
<td>Milk receipts per farm (2000/01)</td>
<td>192</td>
<td>234</td>
<td>149</td>
<td>271</td>
<td>264</td>
<td>200</td>
</tr>
<tr>
<td>Decline:</td>
<td>53</td>
<td>-8</td>
<td>44</td>
<td>23</td>
<td>87</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Milk receipts figures are from ABARE2; the declines in the last line are calculated.
While receipts rose in two states (Victoria and West Australia), all others experienced declines.

Since production increased in 2000/01 over 1999/00, the adverse effects of the policy change were to some extent offset by the higher production. An adjustment was made to allow for the effect of changes in production by adjusting the 1999/00 milk receipts/farm by the ratio of production/farm in 2000/01 to production per farm in 1999/00. Table 4 shows the decline in receipts that would have occurred (ignoring any other price changes arising, for example, from shifts in supply or demand) absent the DSAP payments.

### Table 4
Decline in milk receipts per farm from 1999/00 to 2000/01
(adjusted for change in production)
(Production figures in ml. annually; receipts in $ thousands annually)

<table>
<thead>
<tr>
<th>Milk receipts per farm (99/00)</th>
<th>New South Wales</th>
<th>Victoria</th>
<th>QueensLand</th>
<th>South Australia</th>
<th>West Australia</th>
<th>Tasmania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk receipts per farm (00/01)</td>
<td>245</td>
<td>226</td>
<td>193</td>
<td>294</td>
<td>351</td>
<td>209</td>
</tr>
<tr>
<td>Milk production per farm (99/00)</td>
<td>690</td>
<td>868</td>
<td>492</td>
<td>1043</td>
<td>984</td>
<td>804</td>
</tr>
<tr>
<td>Milk production per farm (00/01)</td>
<td>752</td>
<td>928</td>
<td>490</td>
<td>1103</td>
<td>1119</td>
<td>850</td>
</tr>
<tr>
<td>Adjusted receipts per farm (99/00)</td>
<td>267</td>
<td>242</td>
<td>192</td>
<td>311</td>
<td>399</td>
<td>220</td>
</tr>
<tr>
<td>Milk receipts per farm (00/01)</td>
<td>192</td>
<td>234</td>
<td>149</td>
<td>271</td>
<td>264</td>
<td>200</td>
</tr>
<tr>
<td>Adjusted decline:</td>
<td>75</td>
<td>8</td>
<td>43</td>
<td>40</td>
<td>135</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Milk receipts figures are from ABARE2; the adjusted figures are calculated.

The decline in profitability of dairy farms reflects the decline in receipts resulting from the change in policy. It should be noted that farms derive the majority, but not all, of their total revenue from milk. Table 5 shows the profit per farm for the two years.
### Table 5
Revenues, Costs and Profits per farm, 1999/00 and 2000/01
($ thousands)

<table>
<thead>
<tr>
<th></th>
<th>New South Wales</th>
<th>Victoria</th>
<th>QueensLand</th>
<th>South Australia</th>
<th>West Australia</th>
<th>Tasmania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk receipts per farm (99/00)</td>
<td>245</td>
<td>226</td>
<td>193</td>
<td>294</td>
<td>351</td>
<td>209</td>
</tr>
<tr>
<td>Total receipts per farm (99/00)</td>
<td>274.8</td>
<td>255.2</td>
<td>228.9</td>
<td>348.5</td>
<td>450.4</td>
<td>316.7</td>
</tr>
<tr>
<td>Costs per farm (99/00)</td>
<td>55.2</td>
<td>253.9</td>
<td>218.1</td>
<td>332.8</td>
<td>399.7</td>
<td>296.4</td>
</tr>
<tr>
<td>Profits per farm (99/00)</td>
<td>19.6</td>
<td>1.3</td>
<td>10.8</td>
<td>15.7</td>
<td>50.7</td>
<td>20.3</td>
</tr>
<tr>
<td>Milk receipts per farm (00/01)</td>
<td>192</td>
<td>234</td>
<td>149</td>
<td>271</td>
<td>264</td>
<td>200</td>
</tr>
<tr>
<td>Total receipts per farm (00/01)</td>
<td>225.9</td>
<td>270.1</td>
<td>184.4</td>
<td>326.2</td>
<td>368.1</td>
<td>302</td>
</tr>
<tr>
<td>Costs per farm (00/01)</td>
<td>256.4</td>
<td>272.2</td>
<td>216.3</td>
<td>342</td>
<td>399.4</td>
<td>300.9</td>
</tr>
<tr>
<td>Profits per farm (00/01)</td>
<td>-30.5</td>
<td>-2.1</td>
<td>-31.9</td>
<td>-15.8</td>
<td>-31.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Decline:</td>
<td>50.1</td>
<td>3.4</td>
<td>42.7</td>
<td>31.5</td>
<td>82</td>
<td>19.2</td>
</tr>
</tbody>
</table>

Source: Figures on receipts, costs, profits and DSAP payments are from ABARE2; the effect of the DSAP payments on profits and the figures on the declines in profits are calculated.

The last line of this table is almost identical to the last line of Table 3, indicating that the loss in revenue from the milk price supports went straight to the bottom line of most dairy farms. However, offsetting this decline were the DSAP payments under the new program. The effect of these are shown in Table 6.

As anticipated from the assessment of the total value to all farmers of the former price support system and the new programs, the DSAP payments did not offset the entire effect of the policy changes. This is consistent with the stated objectives of the new program, which were not to compensate fully for the loss of the old program but merely to assist in the transition to an open market.
Table 6
Profits per farm, 1999/00 compared with 2000/01 and the effect DSAP payments on profitability per farm, 2000/01 ($ thousands)

<table>
<thead>
<tr>
<th></th>
<th>New South Wales</th>
<th>Victoria</th>
<th>Queen's Land</th>
<th>South Australia</th>
<th>West Australia</th>
<th>Tasmania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits per farm</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(99/00)</td>
<td>19.6</td>
<td>1.3</td>
<td>10.8</td>
<td>15.7</td>
<td>50.7</td>
<td>20.3</td>
</tr>
<tr>
<td>Profits per farm</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>(00/01)</td>
<td>-30.5</td>
<td>-2.1</td>
<td>-31.9</td>
<td>-15.8</td>
<td>-31.3</td>
<td>1.1</td>
</tr>
<tr>
<td>DSAP payments per</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>farm (00/01)</td>
<td>20.3</td>
<td>12.3</td>
<td>15.9</td>
<td>18.2</td>
<td>30.9</td>
<td>8.9</td>
</tr>
<tr>
<td>Profits including DSAP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(00/01)</td>
<td>-10.2</td>
<td>10.2</td>
<td>-16.0</td>
<td>2.4</td>
<td>-0.4</td>
<td>10</td>
</tr>
<tr>
<td>Net change in profits in 00/01</td>
<td>-29.8</td>
<td>11.5</td>
<td>-26.8</td>
<td>-13.3</td>
<td>-51.1</td>
<td>-9.7</td>
</tr>
</tbody>
</table>

Source: ABARE2; figures in the last two lines are calculated

Comparisons with Canada’s Supply Management system

The similarities:

Like the former Australian system, Supply Management entails administered prices for dairy products at the farm level. These prices are set by various boards, and maintained through regulation.

There are restrictions on movement of milk between provinces in Canada, and there are similar restrictions between Australian states.

Most significantly, as in Australia, the value of the price and income support measures have been capitalised into the value of tradable assets owned by individual farmers, in the form of quotas, dairy cows, land values or other tradable assets. The value of these assets is the property of the farmers, and therefore the termination of the support programs would involve the abrogation of property rights.

The differences:

The Australian program differed from the Canadian insofar as the administered price regime applied to only the market milk portion of production and sales, and because it included a direct subsidy on the remainder, the manufacturing milk segment.

The sources reviewed for this paper indicate considerable support, even among farmers, for deregulation. The state of Victoria, the largest milk producer by far, seems to have been at the forefront of the pressure for change. The reform package
is said to have come from the dairy industry itself, not from government. In contrast, any change to the existing system is firmly resisted by the farm sector in Canada.

A major proportion of Australian manufactured dairy products (cheese, etc.) is exported. Clearly, both farmers and processors wished to retain those markets, and both the levies were in fact a special tax impairing the competitiveness of the industry. The administered prices and subsidies also discouraged efficiency at the primary production level.

Conclusions

Does the Australian experience have any applicability to Canada? If Supply Management is to be terminated, does the Australian model provide any guidance to how it might be achieved and the adverse effects at the farm level mitigated?

Despite the differences between the dairy industries in the two countries, the Australian experience does provide a starting point for developing a transition from a system of regulation and administered prices to a free market, and a possible approach to extracting Canada’s dairy industry from the Supply Management system. Three aspects of the Australian model could be adapted and applied to the Canadian situation:

1. It accepts that a system of administered prices, subsidies and quotas has created property rights that cannot be arbitrarily abrogated.

2. Accordingly, it adopts the strategy of providing either compensation for lost property rights, or assistance for adaptation or a combination of both. This in turn provides a framework for effecting change, while mitigating both the injustice and financial hardship of arbitrary loss from imposed policies.

3. The Australian model imposes limited added burdens on the public purse by funding the compensation and assistance payments through a consumer levy. In the Australian case, the levy of 11 cents per litre will likely prove to be less than the burden imposed by the administered prices, which were (Table 1) between 25 and 35 cents per litre above the price of freely traded manufacturing milk.

The studies available for this report were conducted too early into the new regime to make definitive conclusions about the net effect on consumer prices. ABARE1 cited spot prices in eight different regions of Australia in the first two months after deregulation. It reported that prices had fallen in six of the eight by between 1.9 and 4.8 cents per litre, while they had risen in the other two by 2.4 and 5.8 cents per litre. The SACES study cited media reports of price drops of “up to 27c/L,” a figure that exceeds, but lies very roughly in the same order of magnitude as the difference
between market and manufacturing milk under the former program (about 30 cents per litre), less the new levy of 11 cents per litre.

Clearly the relative values of the DMSS scheme in Australia and Supply Management in Canada would be an important factor in determining the impact of implementing an Australian style reform in this country. One measurement of that value is the total benefit to farmers of the DMSS program, calculated above at $569.9 million annually, divided by the total milk production per year of 9,836.5 ml., as shown in Table 1. This comes to about 5.8 cents per litre.

It was beyond the scope of this review to determine whether or not the total value of the Australian program to farmer was relatively greater than the value of the Canadian program to farmers in this country.

**Recommendation**

An in-depth study of the Australian approach to and experience with deregulation of its dairy industry should be undertaken. To explore the applicability of the Australian approach to Canada’s Supply Management system, it should have specific regard for those aspects of the Australian program identified in this paper (the offset payments and the funding by levy). In particular, the study should identify the threats to the Supply Management system from current trends in international trade negotiations, and determine whether the Australian approach would provide a framework for compensating dairy farmers for the loss of the entitlements they enjoy under the current system.

In addition to the dairy industry, some attention should be paid to the “feather industries” (eggs and poultry) to determine whether the same approach could be used to effect reform in these commodities, also the subject of trade complaints.
SOURCES


Various information from the Australian Dairy Corporation, found at www.dairycorp.com.au.


The Australian Bureau of Agricultural and Resource Economics, "Australia’s Expanding Dairy Industry: productivity and profit,” (no date). (Cited as ABARE2)
