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**Dairy Industry in NSW:
Past and Present**

by

John Wilkinson

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CONTENTS

EXECUTIVE SUMMARY

1	THE DEVELOPMENT OF THE DAIRY INDUSTRY IN NSW	1
2	THE RISE AND DECLINE OF ASSISTANCE TO THE DAIRY INDUSTRY	8
3	THE IMPACT OF THE CHANGES IN OVERSEAS MARKETS, AND RECENT GOVERNMENT POLICY, ON THE NATURE OF THE DAIRY INDUSTRY IN NSW AND THE REST OF AUSTRALIA	24
4	THE HOWARD GOVERNMENT'S PROPOSED REMOVAL OF FEDERAL ASSISTANCE TO THE DAIRY INDUSTRY	35
5	PARMALAT AND NSW DAIRY PRODUCTION	38

EXECUTIVE SUMMARY

- The NSW dairy industry was, once, nearly the equal of Victoria but has declined in recent years (pp.1-8)
- Because a section of the industry tended to obtain low returns, the industry has been the recipient of various schemes of assistance over the years (pp.8-24)
- After the loss of Australia's largest overseas market for butter - following the UK's joining the EEC in 1973 and the inroads of margarine on butter consumption - the industry has gone through a process of: elimination of assistance; rationalisation of production; and centring of production in Victoria (pp.6-7,24-26,29-31)
- The drive, from within the dairy industry, for the final elimination of assistance has been emanating from Victoria (pp.36-37)
- A large overseas multinational - the Italian company Parmalat - has recently entered production in northern Australia and may enter significantly into production in New South Wales, given federal government endorsement of a strategy to expand Australian agri-food products (pp.28,38-43)

1 THE DEVELOPMENT OF THE DAIRY INDUSTRY IN NSW

(a) Early Origins of the NSW Dairy Industry

At the outset of British settlement in Australia, dairying was not the initial activity in those areas that, later on, became the main dairying regions of the state. In the Bega Valley, for instance, as Stephen Codrington has recounted, during the mid- to late 1800s, “Wool remained the district’s main export until 1870, when it gave way to Australian Illawarra Shorthorn (AIS) cattle brought to the district by the influx of free settlers” (after Sir John Robertson had secured passage through parliament of the *Crown Lands Alienation Act 1861* and the *Crown Lands Occupation Act 1861*).¹ Nevertheless, as Codrington adds, “By the mid-1870s a small, though growing, dairy industry had established itself in the valley based on butter and cheese production”. Two brandnames in cheese, which have become familiar to consumers in New South Wales, have their origins in this period. Codrington has written that two Englishmen, who had set up businesses in Sydney, “Thomas Sutcliffe Mort and Robert Lucas Tooth, attempted to establish country estates along traditional English lines; the former at Bodalla in 1860, and the latter at Kameruka in 1864. . .by 1880. . .a third of Kameruka had been made into six dairy farms, each with 100 cows. . .Kameruka led the Bega Valley in technological progress, introducing refrigerated shipping (1879). . .and the cream separator (1886)”. Despite these early advances, however, New South Wales remained an importer of butter in this period: importing 470,395 kilograms of butter in 1883.²

What led to the expansion of the dairy industry in New South Wales was the development of, in Warwick Frost’s words, the wet frontier and the growth of butter production. Until the advent of the great 1890s depression, British settlers had tended to bypass the damp and humid coastal forest lands of Australia, preferring the drier, more lightly vegetated nearer inland areas. The massive slump in wool prices during the 1890s, caused a number of settlers to turn to alternative primary industries. Frost has outlined the course of this as follows:

By the 1870s, despite over 80 years of European settlement, nearly all of the dense high rainfall forests of Eastern Australia were untouched by farming. Timber-getting had caused some disturbance, but had not resulted in any large scale clearance. However, by the 1920s large portions of these forests had been cleared. In most cases the forests were replaced by dairy farms. This . . .[particular area of vegetation] I will term the *wet frontier*. . .Up to 1890 expansion of the wet frontier was slow. . .[as well as the inadvertent stimulus provided by the 1890s depression]

¹ Stephen Codrington, *Gold from Gold: The History of Dairying in the Bega Valley* (Mercury Research Press, Sydney, 1979), p.25.

² *Ibid.*, p.28,30,32. John Gunn has written that, “In November 1879 [Thomas Mort’s]. . .first cargo of frozen meat survived the journey to England through the Red Sea and the Suez Canal. . .26 March 1880 [saw] the arrival in London of the SS *Strathleven* with the carcasses of seventy bullocks and five hundred sheep (as well as two tons of butter)”. See John Gunn, *Along Parallel Lines: A History of the Railways of New South Wales* (Melbourne University Press, Melbourne, 1989), p.163.

The wet frontier needed a staple product, one that was in high demand, could compensate for the high costs of farming in the heavy forests and could attract investment in transport infrastructure. After 1890s butter became that staple, dominating all other products and activities. The wet frontier, with its high rainfall, was ideal for dairying. . . The late nineteenth century. . . [became] a period of great change in Australia. Demand for butter was growing in the expanding industrial and urban centres of Great Britain. In 1886 - 1890, Britain imported an average of 1.7 million hundredweight of butter per year. In 1886 - 1900 it imported 3.2 million per year and, by 1906, 4.2 million. By 1910, Australia was the second largest supplier of butter to the British market, accounting for 15 per cent of imports.³

Even before the 1890s depression, some dairymen who had prospered in the southern part of the (then) colony of NSW, had begun to move to the wilderness area between the Richmond River (which ran through Lismore) and the Tweed River (which ran through Murwillumbah). In the 1890s both the government of George Dibbs (which held office until 1894) and the government of George Reid (which followed) saw an emphasis on dairying as a partial remedy for the 1890s depression. Once the commercial slump of 1890 had seriously set in, both the northern and southern parts of coastal New South Wales benefited from this development of the "wet frontier". In northern NSW, as Maurice Ryan has described, "beginning in 1890. . . Throughout the five counties of Rous, Richmond, Clarence, Fitzroy and Raleigh, millions of acres of [previously wilderness] land fell beneath the selector's axe and the land was sown to pasture for the dairy cow."⁴ In 1894 a railway line from Lismore to Murwillumbah was opened, with the aim of assisting the expansion of the industry. Companies producing butter were soon set up, to take advantage of the newly opened railway: the NSW Creamery Butter Company factory, and the Foley Brothers factory, were both quickly established in Lismore. Other factors which aided the move into dairying - as well as refrigerated shipping - were the introduction of electricity as a source of power, and the advent of the motor truck (though, at this stage, most individual dairy farmers still used horses and carriages).⁵

New South Wales, on an overall level, shared in these advances in the dairy industry - becoming a net exporter of butter by the early 1900s, as the following figures show:

³ Warwick Frost, "Government, Farmers and the Environment: Australia's Wet Frontier, 1870 - 1920", paper presented at the *Conference of the Economic History of Australia and New Zealand*, Armidale, July 1994, pp.2,19-20.

⁴ Maurice Ryan, *Norco 100: A Centenary History of Norco 1895 - 1995* (Norco Co-operative Limited, Lismore, 1995), pp.5,65.

⁵ *Ibid.*, pp.5,14.

NSW Butter Exports: 1890s and 1900s

1893	1,229,713 kilograms
1903	3,465,940 kilograms ⁶

It was also, at this time, that the forerunner of a renowned brandname likewise emerged in the northern coastal region of New South Wales. In 1893 a group of businessmen in the dairy industry formed the North Coast Fresh Food and Cold Storage Co-operative. Seven years later, in 1904, the name was changed to the North Coast Co-operative Company Limited (becoming Norco, in the mid-1920s).⁷

Milk production, in contrast to butter, was always on a smaller scale. Sydney's requirements for milk, for example, were often provided within the metropolitan area itself. Codrington has recounted how, even by the 1920s, a great deal of milk was produced, for Sydney, from areas quite close to the city. He has written that,

In the times around 1920, about one-third of Sydney's milk requirements were produced within the metropolitan area, with consumption representing about ½ pint per head of the population per day. . .In 1911 there had been about 350 registered dairymen in the metropolitan area, with 7,345 cows. . .by 1921 the figures had risen to 427 and 7,856 respectively. . .The average area of each farm was approximately 1.2 hectares and the average herd consisted of 40 to 50 cows. . .[the NSW Board of Trade in 1923]. . .described the situation at the time by saying 'A great number of [suburban] dairymen keep herds of less than ten cows. Some. . .dairymen have large herds. There is one herd of 250 cows at Waterloo, another of 140 cows at Zetland, another of 130 cows at Greenwich, another of 126 cows at North Sydney, another of 125 cows at Willoughby, another of 125 cows at Concord, and other of 100 cows at Enfield, Canterbury and Woollahra. . .'⁸

Some producers in the areas outside had previously endeavoured to break into the Sydney market for milk. Codrington observed that "The first attempt to supply distant country milk to Sydney. . .was by Illawarra farmers from Wollongong in 1856. Milk was transported by steamer to Sydney three times each week, the journey taking five hours. However, as no attempt was made to either refrigerate or condition the milk, the project failed after only a few months."⁹ Subsequent endeavours by farmers in the same district, to export milk to Sydney, led to the formation of the present-day Dairy Farmers, as Codrington has also explained:

⁶ Codrington, op.cit., p.32.

⁷ Ibid., pp.5-6.

⁸ Codrington, op.cit., p.122 citing NSW Board of Trade, *An Interim Report upon the Conditions of Production and Distribution of Certain Commodities* (NSW Board of Trade, Sydney, 1923).

⁹ Codrington, *ibid.*

. . . the next attempt . . . to transport Illawarra milk to Sydney [came about] when the Fresh Food and Ice Company began transporting milk by steamer, using ice as a preservative. In 1900 the situation was summarised by the *Kiama Independent*, saying ‘There are four companies engaged in the trade, all of whom have to be supplied with milk by the farmers within 100 miles of Sydney, and during the past four and five years, the complaints of the producers against them on various points, but especially on the middleman’s costs and consequently the small returns, have become chronic and apparently unendurable.’ To overcome this situation, a small group of farmers around Albion Park and Dapto in the Illawarra formed the Dairy Farmers’ Co-operative Association Ltd. with the purpose of sending milk to Sydney. Thus Dairy Farmers was formed in 1900. . .¹⁰

(b) The Ascent of Small Farmer Involvement in NSW Dairy Production in NSW: towards 1935

Smallholder participation in the NSW dairy industry appears to have reached its zenith just after the recovery of business conditions in the mid-1930s. Part of this general expansion of butter and milk production was due to the British government’s bulk purchase contracts for Australian butter supplies, during the First World War. By 1917, Norco became Australia’s biggest butter maker, producing (in that year) 10,411,406 lbs or 4,648 tons (4,732,457 kgs.) of butter.¹¹ Exports to Britain remained buoyant after the end of the war. The *National Handbook of Australia’s Industries* remarked that, during the 1920s, “prices for butter continued on a high level in London.” As a result, Norco was able to expand even more, with the *National Handbook* recording that,

In 1921, Corndale, a branch of the old Lismore Dairy Company, was taken over, and in October of that year an amalgamation was effected with the Nimbin Co-operative Dairy Company. Expansion still continued and five additional amalgamations followed in succession - Kyogle, Ettrick, Wyangarie, Cawongle, Binna Burra - bringing the total of factories in the Norco group to fifteen. This figure has been brought to twenty [by 1930]. . .further amalgamations taking place in 1929 with Ballina, Tweed River, Bonaldo whilst Alstonville linked up in 1930.¹²

In 1926 the North Coast Co-operative Company finally changed its name to Norco Limited with headquarters both in Lismore and in Sydney (the latter established in 1929 in a six-storey building on the corner of Sussex and Bathurst Streets). As far as dairying in southern NSW was concerned, Stephen Codrington has added that “By 1922 there were 700 dairymen in the Bega Valley supplying the butter factories, and an additional 100 who were

¹⁰ Ibid.

¹¹ Ryan, op.cit., p.181.

¹² Ambrose Pratt (ed.), *The National Handbook of Australia’s Industries* (Specialty Press, Melbourne, 1934), pp.40,197.

mainly engaged in cheese production.”¹³ ¹⁴

A considerable amount of butter continued to be exported in the early 1930s. 20,227,272 kilograms, or around 40% of the state total production of butter, was exported in 1932. Of the total quantity exported, Britain continued to take by far the greatest proportion: 93% in that year. The other significant export market was the (then) Dutch-controlled Indonesia - which took 6.5%.¹⁵

NSW Dairy Production: 1932

Number of Dairy Farms	15,136
Number of People Employed (including Proprietors)	42,223
Number of Cows for Milking	858,000
Quantity of Milk Produced	298,111,082 gallons (1,355 million litres)
Quantity of Butter Produced	114,200,000 pounds (51,909,090 kilograms or 51,909 metric tonnes)
Quantity of Cheese Produced	6,516,000 pounds (2,961,818 kilograms or 2,962 metric tonnes) ¹⁶

The peak of smallholder participation in the dairy industry - at least on the north coast of NSW - seems to have occurred in 1935. In that year there were 23,026 registered dairy farms in the state.¹⁷ Walter Seccombe, chairman of Norco in 1959, pointed out to a Menzies government inquiry into the dairy industry that,

In 1935 Norco had 4,303 suppliers, this being the highest on record. At the same time, Foley Bros. Pty Limited were operating in the same district and probably had about 600 suppliers, so that the total number of suppliers to Norco and Foley's at that time was approximately 4,903. At the present time [1959] Norco has 3,963 suppliers, after taking over the business of Foley Bros. It is therefore apparent that within Norco's sphere of influence 940 suppliers have been lost to the industry since

¹³ Codrington, op.cit., p.51.

¹⁴ Ryan, op.cit., pp.185,380.

¹⁵ Ibid., pp.39,41.

¹⁶ *The National Handbook of Australia's Industries*, pp.37,100.

¹⁷ NSW Government, *Report of the Inter-Departmental Committee on the Dairy Industry* (NSW Department of Primary Industries, Sydney, 1978), p.8.

1935.¹⁸

Part of the reason for this peak, in 1935, was the impact of the depression on male unemployment. Albert Clark, a NSW dairy farmer who appeared at the 1959 inquiry, observed that, “During the world depression, production of dairy products in the north-east portion of New South Wales reached its highest peak. The family unit remained on the farms and hundreds of young men, forced through circumstances and lack of employment in all other avenues, found some security as employees in the industry.”¹⁹

(c) The Decline of Smallholder Involvement in the NSW Dairy Industry: the emergence of Margarine and the Loss of the UK Butter Market, 1940s to the early 1990s

From the 1940s onwards, the number of smallholders, in the NSW dairy industry, began to decline. Many, of those that were left, could only make a modest income. One contributing factor was the emergence of margarine as a competitor to butter. Consumption of margarine, which had been insignificant before the Second World War, increased steadily during the early 1950s, as the following figures indicate:

Butter and Margarine Consumption in Australia: pre-World War II to the late 1970s

	Butter	Margarine
1938-39	14.9 kilograms per head	0.4 kilograms per head
1958-59	12.3 kilograms per head	not available
1968-69	9.8 kilograms per head	1.5 kilograms per head
1974-75	7.2 kilograms per head	2.2 kilograms per head
1976-77	5.8 kilograms per head	4.7 kilograms per head ²⁰

Britain’s joining the European Economic Community (EEC), and the subsequent loss of the British market for Australian butter exports, led to a further decline in the Australian dairy industry. As the Bureau of Agricultural Economics (BAE) commented in 1976, “Until three years ago the United Kingdom was Australia’s major market for dairy products. Since UK accession to the EEC this former market is effectively closed to all supplies except those

¹⁸ Commonwealth of Australia, *Dairy Industry Committee of Enquiry 1959 - 1960*, vol.5, p.1313.

¹⁹ Ibid., vol.6, p.1627.

²⁰ John Longworth, “Food Consumption” in D.B. Williams, op.cit., *Agriculture in the Australian Economy*, second edition (Sydney University Press, Sydney, 1982), p.310.

from other EEC member countries and, possibly only for a limited time, New Zealand.”²¹ This is demonstrated by the following figures for overall dairy production in New South Wales for the 1950s to the early 1980s:

NSW Milk Production: 1950s - early 1980s

1951-1952	241,000,000 gallons or 1,096 million litres
1958-1959	324,000,000 gallons or 1,473 million litres
1966-1967	1,468 million litres
1969-1970	1,413 million litres
1974-1975	958,000,000 litres
1977	914,000,000 litres
1981	820,000,000 litres ²²

Butter production, in particular, declined drastically after Britain joined the EEC:

NSW Butter Production: 1950s - early 1990s

1951	36,703 tonnes
1961	35,941 tonnes
1971	21,288 tonnes
1981	1,388 tonnes
1991	971 tonnes ²³

As will be outlined in the following section of this paper, the total number of dairy farms in New South Wales was reduced over the years as follows:

²¹ Bureau of Agricultural Economics, *BAE Submission to Industries Assistance Commission Inquiry into the Dairy Industry: Marketing Arrangements*, Industry Economics Monograph no.12 (Australian Government Publishing Service, Canberra, 1976), p.22.

²² *Dairy Industry Committee of Enquiry 1959-1960*, vol.4, p.1084; Bureau of Agricultural Economics, op.cit., p.17; *Report of the Inter-Departmental Committee on the Dairy Industry*, p.8; *NSW Year Book 1998*, p.271.

²³ *NSW Year Book 1998*, p.271.

NSW Dairy Farms: 1971-1990

1971	7,735
1980	3,601
1990	2,218 ²⁴

2 THE RISE AND DECLINE OF ASSISTANCE TO THE DAIRY INDUSTRY**(a) Basic Reasons for Assistance**

Essentially, the reason that led to government assistance to participants in the industry, was the prevalence of low returns obtained by dairy farmers who produced milk for manufacturing purposes: principally for butter, cheese, ice-cream. As Carol Vogt has remarked, “it is the manufacturing [i.e. butter] sector of the dairy industry which has [had] the more serious low-income problem”.²⁵

One explanation for the emergence of this situation was put forward, at the Menzies’ government’s 1959 inquiry into the dairy industry, by Eric Roberts, then president of the Australian Dairy Farmers’ Federation (based in Sydney). Roberts told the inquiry that “the sale of” the dairy farmer’s “product is restricted by excessive middleman profit.”²⁶ Francis Fredericks, representing the Richmond and Tweed Rivers Trades and Labour Council, gave the following outline, to the same inquiry, of how this middleman profit arose:

The factories pay the farmer an average price of 1/10d [one shilling and ten pence] per gallon for the whole milk. . .They (the factories) then wholesale this milk at 5/1d [five shillings and a penny] per gallon, showing a figure of 3/3d [three shillings and three pence] per gallon for handling and distribution. This appears to be a standard charge throughout the whole state. Private milk vendors who buy direct from the farmer pay the latter 4/6d [four shillings and sixpence] per gallon compared with 1/10d per gallon paid by the factories and this milk is delivered to the householders for 9d [nine pence] per pint, equivalent to 6/0d [six shillings] per gallon. This price gives the vendor 1/6d [one shilling and sixpence] for retail distribution compared with the factories’ 3/3d for wholesale distribution.²⁷

²⁴ Industry Commission, *Australian Dairy Industry*, report no.14 (Australian Government Publishing Service, Canberra, 1991), p.168

²⁵ Carol Vogt, *Agricultural Subsidies and Farm Income Distribution: A Case Study of the Australian Dairy Industry* (M.Ec. Thesis, Monash University, 1975), p.17.

²⁶ *Dairy Industry Committee of Enquiry 1959-1960*, vol.6, p.1542.

²⁷ *Ibid.*, vol.6, p.1596.

Eric Watson, secretary of the Dairy Farmers' Union of NSW, informed the 1959 inquiry that "what we are doing at present. . .is. . .underpaying the labour, which in this case happens to be ourselves and our families."²⁸

(b) Commencement of Federal Government Intervention: The Bruce Government's Export Control Plan and the Paterson Butter Scheme

During the first half of the 1920s, the federal Liberal - Country Party government, led by Stanley Bruce, obtained passage of the *Dairy Produce Export Control Act 1924*. This legislation established a Dairy Produce Control Board consisting of dairy farmers' representatives; representatives of the butter and cheese factories; one representative of export sellers of dairy produce; and one representative from the federal government. The aim of the legislation was to attempt to exercise control over the price of Australian butter, as sold in London, as N.T. Drane has explained:

The board was empowered to control by licence the export of all dairy produce. Its primary objective was to improve the organisation of marketing Australian dairy produce by co-ordination of distribution and selling agents. . .[this was to be] achieved by the exercise of the board's power to withhold supplies of butter and cheese on overseas markets (within the limits set by available storage space and finance) in conditions of temporary abundance and supply.²⁹

During the second half of the 1920s, Thomas Paterson, a Country Party member of the federal parliament, succeeded in prevailing upon the dairy industry to adopt a subsidy scheme for dairy farmers. This plan was subsequently described in the *Economic Record*, as follows:

Sales of Australian butter, whether for local requirements or export, are at London export parity rate level, which. . .[the dairy farmer] estimates to be about 3d. per lb. less than the. . .open market rate. . .the Paterson Scheme provides for the imposition of such levies on all butter and cheese produced within the Commonwealth as may be necessary to pay a bounty of not less than 3d. per lb. on butter exported, and 1½d. per lb. on cheese exported. . .The scheme came into operation on 1st January, 1926, and is being controlled by a body known as the Australian Stabilisation Committee, with an advisory committee in each state.³⁰

Despite the scheme being voluntary, by February 1926, according to Codrington, "all New South Wales butter factories subscribed to the Paterson Scheme". Operatives in the dairy industry then began to expand production in response to what was a relatively artificial

²⁸ Ibid., vol.6, p.1543.

²⁹ N.T. Drane, "Development of Dairying" in N.T. Drane and H.T. Edwards (eds.), *The Australian Dairy Industry: An Economic Study* (F.W. Cheshire, Melbourne, 1961), p.33.

³⁰ J.F. Barry, "The Paterson Scheme for Stabilising the Market for Dairy Produce" in the *Economic Record*, vol.II, no.2, May 1926, pp.119-120.

stimulus. Codrington noted that “In 1925, ABC Co-operative built a new brick and concrete [cheese] factory. . .at a cost for plant and building of \$10,930. Tilba Tilba Co-operative also built a new cheese factory in 1926. . .These moves were made despite a relative decline in the Valley’s cheese industry compared to the rest of New South Wales.”³¹

(c) The Commencement of NSW Government Intervention: The Lang Government’s 1931 Legislation to assist Producers of Household Milk

With the arrival of the great commercial crash of 1929, thousands of people lost their jobs and their expenditure, even on essentials, dropped dramatically. Consequently, retailers of milk cut their price by almost $\frac{2}{3}$ of the pre-1929 price. In May 1931, to assist small dairy producers, the then premier of NSW, Jack Lang, held a Producers and Consumers Conference at Bathurst. At the conference, a number of farmers formed a Producers’ Milk Committee which recommended, according to William Murphy, “That the metropolitan supply be regulated and controlled in all its phases by. . .[a] Metropolitan Milk Board. . .That the Milk Board be given effective power to fix prices.” In August 1931 the Lang government introduced a bill, incorporating these recommendations, into the Legislative Assembly; the bill being approved, by both houses, by the end of the year.³²

More than just providing for the establishment of a Milk Board and for the fixing of prices for milk, the *Milk Act 1931* provided for the creation, as Murphy described it, of a “metropolitan milk distributing district (embracing the metropolitan areas of Sydney) and of a producing district (the milk zone) from which milk supplies for the metropolitan milk distributing district. . .[were] drawn”. The boundaries of the *milk distributing district*, according to Murphy, “originally. . .comprised the metropolitan areas of Sydney, from Hornsby to Sutherland and extending westward to Parramatta. . .[by 1949 it had] been extended to the Nepean River, including the St. Mary’s-Penrith and the Windsor-Richmond areas; in the north. . .to the Hawkesbury River at Brooklyn.” Other provincial urban areas that, by 1949, had been named milk distributing districts included Newcastle; Erina; Wollongong and Blue Mountains-Lithgow. The *milk producing zone*, supplying these areas, was outlined by Murphy as follows:

When the Milk Act came into force in January 1932, the milk zone embraced the coastal and near-coastal districts from Singleton and Dungog in the north to Bateman’s Bay on the south coast, to Moss Vale on the Southern Highlands and westward through Picton, Camden, Penrith and Windsor. Later it was extended in the north to the Musswellbrook-Scone district and on the north coast to the Manning River.

³¹ Codrington, op.cit., pp.56-57.

³² William Murphy, *The Milk Board of New South Wales: An Outline of its Origin and Development* (NSW Milk Board, Sydney, 1949), pp.13,16.

Property over all milk for consumption in the metropolitan milk distributing district - once it had been received at various receiving depots - was vested in the Milk Board.³³

Milk producers, producing milk for householders, became assured of better prices for their milk since section 23 of the *Milk Act 1931* allowed the Milk Board to fix prices. Thus in 1932 the board fixed prices for supply of householders' milk, to the Sydney metropolitan area, as follows:

NSW Milk Board, Fixed Prices for Delivery of Sydney Milk: 1932

to dairymen at country factories	11 pence to 11½ pence per gallon
maximum wholesale price to vendors	1 shilling and 5 pence per gallon
maximum retail price	2 shillings and 4 pence per gallon ³⁴

Although the bulk of milk production in the state was still going into butter production, milk production in New South Wales now began to tend to divide into a northern NSW butter producing zone (where farmers returns were more meagre) and a southern NSW zone producing milk for householders in the Sydney, Newcastle, Erina, Wollongong and Blue Mountains-Lithgow districts (where farmers were guaranteed, by government, somewhat higher prices for their product). The far southern-eastern part of the state (particularly around Bega) was also left out of the milk producing zone.³⁵ This divide is indicated by the figures for total production of milk in NSW - and the amount produced for Sydney householders - during the early years of the Milk Act's operation:

Total NSW Milk Production versus Milk Production for Sydney: 1930s - 1940s

	NSW Total	Production for Sydney
1939	311 million gallons	21 million gallons
1945	262 million gallons	35 million gallons
1949	291 million gallons	49 million gallons ³⁶

By the mid-1950s this difference had become pronounced. Dairy farmers supplying milk to the Sydney - Newcastle and Wollongong - Blue-Mountains districts were obtaining 4 shillings and 2½ pence for their milk; whereas dairy farmers producing milk for butter were

³³ Ibid., pp.6,26,71-72.

³⁴ Ibid., p.34.

³⁵ Codrington, op.cit., p.133.

³⁶ *NSW Year Book*, 1948-49; Murphy, op.cit., p.68.

receiving nearly a shilling a gallon less (3 shillings and 4½ pence per gallon).³⁷

In 1955, during the term of office of the Cahill government, the Milk Board introduced a significant innovation in milk production for the Sydney market. As Ryan has described it, a “quota system was introduced [by the Milk Board in 1955] to overcome the shortage of milk, particularly in the winter months. Individual quotas were allocated to farmers in the milk zone to encourage winter production. Thus with a guaranteed income and the increased price paid, the production of milk rose immediately.”³⁸ Gradually these quotas became negotiable. Codrington has pointed out that by the 1960s dairy farmers were “able to buy and sell. . .quotas. . .the average price being about \$200 for the right to supply one gallon of milk daily to the Sydney market.”³⁹

On an overall level, the Lang government’s introduction of governmental control into milk production in NSW appears to have enabled the temporary survival of small operators in the NSW dairy industry, as the figures for the 1930s to the late 1950s indicate:

Dairy Farms and Dairy Cattle in NSW: 1930s - late 1950s

	Dairy Farms	Dairy Cattle
1932	15,136	858,000
1959-60	13,595	751,115 ⁴⁰

(d) Combined Federal and State Government Assistance to Butter Producers: The Lyons Government’s Equalisation Plan 1933

Paterson’s scheme, for stabilising the price of butter, had begun to unravel by the early 1930s, partly, according to H.R. Edwards, because of “the lack of full support by all butter manufacturers in the absence of legislative backing”.⁴¹ The bulk of butter produced in Australia continued to be exported: 109,314 tons being exported during 1933-1934 and, of this total, 93% (101,808 tons) went to Britain.⁴² As before, the concern of the butter producer was the relatively low price gained in export markets. Subsequently the federal government of Joseph Lyons attempted once more to introduce an “equalisation” scheme.

³⁷ Codrington, op.cit., p.135.

³⁸ Ryan, op.cit., p.321.

³⁹ Codrington, op.cit., p.163.

⁴⁰ *The National Handbook of Australia’s Industries*, p.100; *NSW Year Book 1961*, p.918; Norman Snow, *Managing the Australian Dairy Industry in the 1970s* (MBA Thesis, University of Melbourne, 1969), p.92.

⁴¹ H.R. Edwards, “Government Assistance to Butterfat Producers” in Drane and Edwards, op.cit., p.194.

⁴² *The National Handbook of Australia’s Industries*, p.41.

Edwards has written that,

In accordance with representations by the industry, the Dairy Produce Act was passed by the Commonwealth Parliament towards the end of 1933, and complementary legislation was subsequently enacted by all state governments. Under the latter legislation, Dairy Products Boards were established in each state with power to fix the proportion of the state's production to be sold within the state. The purpose of the Commonwealth's act. . .was. . .[to ensure that there was] no advantage to be gained by the individual manufacturer in seeking to make sales in the (higher-priced) home market as against the (lower-priced) export market.⁴³

Although the Lyons government's legislation was never implemented - possibly, because, as Edwards comments, it could have "been held to be invalid on constitutional grounds"- not only did the Stevens government, in NSW, obtain passage of the *Dairy Produce Act 1933* (with other states acting likewise), but the Lyons government did succeed in establishing the Commonwealth Dairy Produce Equalisation Committee Limited which, as Edwards also described, was "a voluntary organisation established in consultation with the then Commonwealth Department of Commerce at the time of the passing of the. . .[state] acts as the most efficacious means of achieving the purposes of the acts." The shareholders of the Commonwealth Dairy Produce Equalisation Committee Limited were representatives of the various state dairy products boards established by their respective 1933 complementary acts.⁴⁴ The equalisation committee, and the various state dairy products boards, had close links with the companies in the industry. J.K. Donaldson, who became general manager of Norco in the mid-1940s, was not only made chairman of the NSW Dairy Products Board in 1959 but served as chairman of directors of the equalisation committee from 1958-1970.⁴⁵

As Edwards explains, the method of operation of the scheme was that "when the Australian price [for butter was]. . .higher than the export price. . .factories which normally. . .[sold] the bulk of their output in Australia. . .were required to make. . .payments to the committee" while "factories. . .[receiving] less than the the national average receive payments from the committee."⁴⁶

(e) The Curtin Government's Dairy Industry Assistance Act 1942

The next stage, of federal government assistance to the dairy industry, occurred just after the outbreak of the Second European War, and the subsequent Pacific War, when the Curtin government obtained passage of the *Dairy Industry Assistance Act 1942*.

⁴³ Edwards, op.cit., in Drane and Edwards, op.cit., p.196.

⁴⁴ Ibid., pp.195-196.

⁴⁵ Ryan, op.cit., p.341; Patricia Corbett, *Dairy Farmer Organisation and Politics 1949-69* (PhD Thesis, University of Adelaide, 1975), p.251.

⁴⁶ Edwards, ibid.

As had happened during the Great War 1914-1918, the British government, in 1940, once more contracted with the Australian government for bulk purchases of Australian butter. Because, as indicated in section 1 (b) above, Australian dairy farmers had tended to overproduce during the 1930s, causing a consequent drop in the export price of butter, the British government managed to obtain relatively low prices for the Australian product.⁴⁷

At the same time, as Carol Vogt recounts, with men leaving production to join up for the war, “the dairy industry was severely affected by shortages of manpower, machinery and various materials. . .As a result total production of milk fell substantially.”⁴⁸ Consequently, although the equalisation scheme (outlined in the sub-section above) continued to operate, the Curtin government “decided to provide an incentive to producers to increase production by way of a bounty.” Curtin’s government decided to ensure a return to producers of milk, for butter, of 1 shilling and sixpence per pound of product. This was provided for by Curtin’s obtaining passage of the *Dairy Industry Assistance Act 1942*. What this legislation did to the equalisation scheme, as Eric Roberts, president of the Australian Dairy Farmers’ Federation explained in 1959, was that “payments to producers for butter and cheese changed over to a system of returns at a guaranteed level which became the base of returns to factories from the Equalisation Committee’s offices”.⁴⁹ The first bounty under this legislation was in 1943, to last for a year, and amounted to around £2 million. Each year the Curtin government provided for an extension of the bounty - increasing it to £5 million in 1944. Chifley’s government maintained the bounty after the end of the war, and then the Menzies government provided for a substantial increase in the size of the bounty. During the late 1960s and early 1970s the Gorton and McMahon government enabled the amount to be increased even more. The total figures for the bounty are as follows:

Annual Butter and Cheese Bounty: 1940s - 1970s

1942-43	£2 million
1943-44	£5.7 million
1944-45	£5.7 million
1945-46	£5.1 million
1946-47	£4.7 million
1947-48	£6.4 million
1948-49	£5.1 million
1949-50	£8.4 million
1950-51	£14.8 million

⁴⁷ *Dairy Industry Committee of Enquiry 1959-1960*, vol.6, p.1627.

⁴⁸ Vogt, op.cit., p.19.

⁴⁹ *Dairy Industry Committee of Enquiry 1959-1960*, vol.11, p.2567.

1951-52	£17.2 million
1952-53	£15.2 million
1953-54	£15.4 million
1954-55	£15.7 million
1955-56	£14.5 million
1956-57	£13.5 million
1957-58	£13.5 million
1958-59	£13.5 million
1959-60	£13.5 million
1960-61	£13.5 million
1961-62	£13.5 million
1962-63	£13.5 million
1963-64	£13.5 million
1964-65	£13.5 million
1965-66	£13.5 million
1966-67	£13.5 million or \$27 million
1967-68	\$27 million
1968-69	\$27 million
1969-70	\$27 million
1971	\$42.8 million
1972	\$40 million
1973	\$28.5 million ⁵⁰

(f) Further State Government Involvement: The Askin Government's Dairy Industry Authority 1970

Even though, as Norman Snow observed in 1969, "It has been estimated [on an Australia-wide level] that there. . .[remained] some 14,000 dairy farms with herds of 20 to 39 cows", both the Lang government's introduction of government control in state milk production (as mentioned in sub-section (c) above) - and the Lyons and Curtin governments' equalisation arrangements, and bounties for butter and cheese production - had continued to guarantee the existence of smaller operators in New South Wales dairy production, as the statistics for 1960 - 1966 indicate:

⁵⁰ *Dairy Industry Committee of Enquiry 1959-1960*, vol.11, p.2624; Vogt, *op.cit.*, p.24.

Dairy Farms and Dairy Cattle in NSW: 1959/60 - 1965/66

	Dairy Farms	Dairy Cattle
1959-1960	13,595	751,115
1965-1966	11,665	675,482 ⁵¹

During the 1960s a number of dairy farmers, however, still continued to earn very low returns. The federal Bureau of Agricultural Economics noted that in the early 1960s, on an Australia-wide level, “the net farm income of some 55% of dairy farms was less than \$2,000 and in approximately 14% of cases it was negative”.⁵²

State government policy - during the time of the Heffron, Renshaw and Askin governments - appeared to be one of inducing the departure of poorer farmers from the industry, and encouraging the expansion of those farmers who were able to supply Sydney with milk. Patricia Corbett, in a thesis on dairyfarmer organisations, has quoted a Bachelor of Commerce thesis, by Charles Tisdell, affirming this policy. She wrote that “Tisdell considered in 1960 that increasing production had been achieved through the increasing specialisation on zone dairy farmers. . .The NSW Milk Board report itself annually commented on the declining number of dairymen and the amalgamation of dairies amongst its registered suppliers.”⁵³ The exit of farmers from the industry, particularly in northern NSW, became noticeable during the 1960s. Donald Yates has written that “Tweed, for example, showed a loss of 261 dairy registrations which represented a decline of 553 farms to 292 in the 1964 to 1969 period. . .Woodburn, for the full period 1960 to 1969 showed a drop of 168 to 84 registrations, a decrease of 50% on the 1960 total”.⁵⁴ This is evidenced by the following statistics:

⁵¹ Snow, *ibid*; *NSW Year Book 1969*, p.771.

⁵² Bureau of Agricultural Economics, *The Australian Dairyfarming Industry: An Economic Survey 1961/62 - 1963/64* (Australian Government Publishing Service, Canberra, 1966), part 10, p.108.

⁵³ C. Tisdell, *The NSW Milk Board* (B.Comm. Hons. Thesis, University of Sydney, 1960) cited in Corbett, *op.cit.*, pp.231-232.

⁵⁴ Donald Yates, *Social Factors in the Decline of the Dairy Industry on the Far North Coast of New South Wales* (MA Thesis, University of New England, 1972), p.14.

Dairy Farms on the NSW North Coast: 1965 - 1970

1965	5,401
1970	3,363 ⁵⁵

The effect, on poorer dairy farmers, of this perceived policy of “specialisation. . .and. . . amalgamation” is demonstrated by the gradual decline that occurred, in the number of NSW dairy farms, in the second half of the 1960s:

Dairy Farms and Dairy Cattle in NSW: 1966 - 1970

	Dairy Farms	Dairy Cattle
1966	11,665	675,482
1970	9,061	649,000 ⁵⁶

In 1970 the Askin government decided to make provisions to allow those farmers - who had so far not been able to sell milk for household use, in the urban areas of NSW - to do so. This meant, in essence, allowing farmers in the north of the state, and the far south of the state, access to the Sydney market. The Askin government provided for this, legislatively, by obtaining passage of the *Dairy Industry Authority Act 1970*. However the Askin government’s measures did not bring as much assistance to the non-zone dairy farmers as might have been expected. Codrington has described the passage of the act, and its initial impact, as follows:

the *Dairy Industry Authority Act 1970*. . .became law on the 1st July of that year. The Act was designed to repeal the *Milk Act 1931*. . .and to replace the Milk Board with a new body, the Dairy Industry Authority (DIA). Although the Milk Zone was retained as a source of supply of Sydney’s milk, the jurisdiction of the DIA was widened to cover all of New South Wales. . .provision was made for farmers outside the zone to have limited access to the Sydney market. The DIA determined a Base Market Quantity (BMQ) which was defined as the total quantity of milk to be sold by the (old) Milk Board in Sydney during the 52 weeks ending on the 18th June 1970. This base market quantity turned out to be 456,020,160 litres, and any excess needs above this BMQ caused by the normal growth of Sydney sales were to be allocated in what it considered to be an equitable manner. . .For the 52 weeks ending 17 June 1971, DIA sales were 471,612,720 litres representing an excess of

⁵⁵ Peter Muller, *Dairy Farming on the North Coast of New South Wales: Social Change, Occupational Mobility and Future Development*. Occasional Publications no.1, Department of Sociology, University of New England, Armidale, 1978, p.93.

⁵⁶ Snow, *ibid.*; *NSW Year Book 1969*, p.771; *Report of the Inter-Departmental Committee on the Dairy Industry*, *ibid.*

16,592,560 litres over the base market quantity available for equitable distribution. Of this quantity only 2,643,152 litres were allocated to non-milk zone areas. . .⁵⁷

(g) Gorton and Whitlam Government's Decision to Scale Down Assistance to Butter Producers

With the impending loss of the British market - with the UK set to join the EEC in 1973 - the Gorton, and then Whitlam governments, decided that it would be better to assist struggling dairy farmers out of the industry and phase out the bounty on butter production. The Gorton government obtained passage of the *Marginal Dairy Farms Agreement Act 1970* which, as Peter Muller has outlined, was "to enable low income dairy farmers, who wished to move out, to receive a fair price for their land and improvements."⁵⁸ After the Whitlam government gained office, as Vogt has written, "In July 1973 a decision was made . . .to phase out the bounty over the following two years, so that in 1973-74 there was a reduction to \$18m. In 1974-75 the bounty. . .[would] be \$9m and thereafter zero."⁵⁹ Subsequently the Whitlam government secured passage of the *Dairy Adjustment Act 1974* providing, as Whitlam later described, "assistance for financially unsound dairy farms. . . [and] assistance for displaced farmers".⁶⁰

During the late 1970s, Norco, for instance, began to reduce its operations. Maurice Ryan has written that "In 1977, because of a dramatic decline in butter consumption. . .Norco decided to sell its Sydney operations at Blacktown plus Wollongong and Canberra to the Murray Goulburn Co-operative on 10th March 1978."⁶¹

(h) Wran Government's Initiatives in the State Dairy Industry

During the first half of the 1970s, the Askin and Lewis governments continued the policy of reducing the number of dairy farmers in the state by focusing production on those farmers supplying milk to Sydney (and the other main urban centres in NSW). Quotas for supply of product to the milk zone - originally introduced by the Cahill government in 1955 to ensure supply of milk during winter - had now become an instrument in this process. Corbett quotes Tisdell as observing that "The individual quota system. . .provided the 'zone dairyman' with an. . .incentive to increased efficiency. . .because the quantity to be sold to the Milk Board under the. . .system was a. . .predictable source of income".⁶²

⁵⁷ Codrington, op.cit., pp.138-139,144.

⁵⁸ Muller, op.cit.. p.6.

⁵⁹ Vogt, op.cit., p.22.

⁶⁰ Gough Whitlam, *The Whitlam Government 1972-1975* (Viking Press, Melbourne, 1985), p.274.

⁶¹ Ryan, op.cit., pp.382-383.

⁶² Corbett, *ibid.*

Indeed, by this time, large scale units had begun to develop in the NSW dairy industry. Corbett noted, in 1975, that “Dairy Farmers Co-op is the biggest NSW organisation, followed by Norco, Hunter Valley Co-op and the South [Coast] and North Coast Co-ops.”⁶³

Dairy farmers outside the Sydney milk zone (particularly those farmers in northern NSW and in the Bega area) continued to press for access to the Sydney milk market. Adding to the frustration of the non-milk zone dairy farmers was their perception not only that it was milk zone farmers holding quotas for production who were preventing outside access to the milk zone (and growing wealthy at the same time), but that some of these same farmers, holding quotas, were Country Party ministers in the then Lewis coalition government and therefore directly ranging the weight of government against those producers outside the zone. By the end of 1975, for example, Bruce Cowan, the Minister for Agriculture, held a quota to supply 590 litres of milk a day to the Dairy Industry Authority; and Col Fisher, the Minister for Local Government, held a quota to supply 6,665 litres a week.⁶⁴

In February 1976 the then leader of the ALP opposition, Neville Wran, called for an inquiry into the NSW milk industry. A month later, Eric Willis, who had just succeeded Tom Lewis as premier, announced that the government would establish a committee to examine the state’s dairy industry. By this time the number dairy farms in the state had declined substantially, as highlighted by the following statistics:

Dairy Farms and Dairy Cattle in NSW: 1970 - 1976

	Dairy Farms	Dairy Cattle
1970	9,061	649,000
1976	4,626	384,000 ⁶⁵

In May 1976 the ALP won the state election and, with Don Day as the new Minister for Agriculture, moved to introduce new policy into dairy production, as Codrington recounts:

the new state government, under Premier Wran, proceeded to implement its dairying policy. To end negotiability, only inactivity was required, as the original statutes ending negotiability on 30th June had not been repealed before the election was called. As the new Minister for Agriculture, Don Day, commented ‘Milk quota negotiability is finished, full stop. . .Milk quotas will be phased from the corporate farm to elevate the dignity and prosperity of the family farm.’ One of the first decisions by the ALP was to freeze the price of milk and, shortly afterwards, it was announced that the previous government’s milk inquiry was to be abolished. . .As the first attempt to redistribute milk to non-milk zone producers, 1.6 million litres

⁶³ Ibid, p.167.

⁶⁴ Codrington, op.cit., p.163.

⁶⁵ *Report of the Inter-Departmental Committee on the Dairy Industry*, p.8.

of milk for the Sydney market were made available to non-BMQ producers in early July 1976. . .the new government's [subsequent] amendments to the Dairy Industry Authority Act had been held up by the opposition dominated Upper House. . . However, after a great deal of bargaining, the government accepted the oppositions's amendments and the bill was passed in the last week of February 1977. . .Legally the milk zone ceased to exist, although its effects were still sufficiently widespread to mean that in practice, in the short run at least, it was still a reality. Quotas still existed, although they were no longer negotiable, but rather re-allocated gratis by the DIA. If a dairy farm was sold to a new owner, the quota was sold with the farm. If a dairy farm ceased to operate as a dairy, the quota reverted to the DIA for re-allocation.⁶⁶

Milk producers in the north and the far south of the state - who had previously been excluded from selling to milk to Sydney, and other designated urban centres - immediately began to gain some benefits from the changes. Ryan has written that "In the year 1974-74 . . . [Norco] had a total intake of more than 64.5 million litres of milk with 14.6 million or 22.7% being taken by the Dairy Industry Authority. The balance was used for manufacturing. By 1980-81 the total intake had grown to 90.1 million litres with 50 million litres going to the DIA, or 55%."⁶⁷ Codrington has added that, towards the end of 1978, "As a result of the re-allocations, Bega gained the right to supply an additional 266,882 litres per week to Sydney."⁶⁸

Two years after the 1977 changes to the Dairy Industry Authority Act, the Wran government succeeded in obtaining passage of the *Dairy Industry Marketing Authority Act 1979*. This legislation established a new body, the Dairy Industry Marketing Authority (DIMA) to replace the former Dairy Industry Authority. This act, however, retained a number of features of the old legislation in that section 21 provided that "Milk. . .supplied for human consumption. . .or. . .supplied for use in the production in New South Wales, of dairy products, is absolutely vested in and is the property of the Authority"; and section 55 (1) stated that a pricing committee "may from time to time make a recommendation - (a) for fixing the minimum price which may be paid to dairymen for milk".⁶⁹

Another four years later, the Wran government secured passage of the *Dairy Industry (Amendment) Act 1983* which provided for the transformation of the DIMA into the NSW Dairy Corporation.

⁶⁶ Codrington, op.cit., pp.161,168,172,174,176,183.

⁶⁷ Ryan, op.cit., p.384.

⁶⁸ Codrington, op.cit., p.177.

⁶⁹ *Dairy Industry Marketing Authority Act 1979*, sections 21 and 55.

(i) The Hawke Government's Policy: The Kerin Plan

During the 1980s, at a federal level, the then Hawke government decided both to continue the reduction of government assistance to the dairy industry, and to make the industry even more commercially orientated. Around the middle of the decade, with John Kerin as Minister for Primary Industries, the Hawke government secured passage of the *Dairy Industry Levy Act 1986*. The nature of the scheme, as summarised by Roley Piggott, was that it utilised “a tax on all milk production to fund a subsidy on exports of selected products. This provide[d] implicit price support to the domestic market and explicit support on exports.”⁷⁰ The outcome of the scheme was later outlined in a report by the Industry Commission (IC):

For example, some Australian cheese may be exported at a price of approximately \$2,500 per tonne, on top of which the Australian exporter receives a market support payment (export subsidy) of approximately \$500 per tonne, increasing total export returns to \$3,000 per tonne. Domestic prices must rise to \$3,000 per tonne (\$500 above the world price) or else there would be an incentive for all cheese of this type to be exported. . . Those states in which the majority of milk is used for manufacturing dairy products benefit more than those states in which most milk is used for market milk.⁷¹

A NSW government review group, examining the NSW dairy industry in the late 1990s, later remarked that, “The intention of the new arrangements was to make the dairy industry more export orientated. . . The scheme was administered by the Australian Dairy Corporation. . . The industry reacted swiftly to the 1986 legislation. Within a few years co-operative company amalgamations and proprietary company take-overs saw significant reductions in the number of dairy companies in Australia.”⁷²

(j) Keating and Fahey Government's Policy

By the end of the 1980s, and the early 1990s, the number of dairy farms in New South Wales had tended to reach a stabilisation point, as the figures below indicate:

⁷⁰ Roley Piggott, “Agricultural Marketing” in D. Williams (ed.), *Agriculture in the Australian Economy*, fourth edition (University of Sydney Press, Sydney, 1990), p.303.

⁷¹ Industry Commission, *op.cit.*, pp.xviii-xix.

⁷² NSW Government Review Group, *Review of the NSW Dairy Act 1979*, issues paper (NSW Agriculture, Orange, 1997), pp.6-7.

Dairy Farms and Dairy Cattle in NSW 1977 - 1993

	Dairy Farms	Dairy Cattle
1977	4,400	362,000
1980	3,601	311,000
1990	2,218	233,000
1993	1,955	221,000 ⁷³

The Hawke's government's *Dairy Industry Levy Act 1986* had a legislative term of existence of only six years: and its provisions were therefore due to expire in 1992. In 1990 the Hawke government asked the Industry Commission (IC) to examine what should be the federal government's next steps in policy towards the dairy industry. During 1991, with the Keating government now holding office, the IC forwarded its report. In 1992 the same government, acting on a number of the IC's recommendations, decided to continue the policy of gradually reducing assistance to the industry. On an overall level, as Gavan Dwyer has observed, the Keating "government's preferred option in . . .1992 was . . .the deregulation of the fluid milk sector by 1999".⁷⁴ To implement this legislatively, the Keating government secured passage of the *Dairy Produce (Amendment) Act 1992* and the *Dairy Produce Levy (Amendment) Act 1992*. The NSW government review group, cited above, summarised these changes as follows:

Following an Industry Commission inquiry into the dairy industry in 1991, the Australian government announced a series of adjustments to the industry support arrangements. These adjustments, which became effective from 1 July 1992, extended the previous arrangements but imposed more restrictive operating parameters. This scheme was known as the Crean Plan. A key feature of the revised arrangements was the continuation of phased reductions in support to the dairy industry. The scheme called for a reduction in the maximum level of support of 22 per cent above world prices in 1992, down to 10 per cent above average world prices in 2000. . .The new arrangements in 1992 also removed the provision for government underwriting of minimum export prices. The underwriting provisions had only been triggered once since their introduction in 1986 because world prices had to fall to an extremely low level for underwriting to be triggered.⁷⁵

⁷³ *Report of the Inter-Departmental Committee on the Dairy Industry*, p.8; Industry Commission, op.cit., p.8; NSW Dairy Corporation, *NSW Dairy Industry Statistics Handbook 1998* (NSW Dairy Corporation, Sydney, 1998), pp.15,33.

⁷⁴ Gavan Dwyer, *The Political Economy of Australian Dairy Industry Policy 1986 - 1992* (M. Ag. Sc. Thesis, University of Melbourne, 1995), p.155.

⁷⁵ NSW Government Review Group, op.cit., p.7.

As the Keating government continued with measures to reduce the level of federal government assistance to the industry, the governments in the states, correspondingly, continued to take steps to lessen the level of state government assistance. In 1990 the Greiner government in New South Wales, according to Geoff Edwards, reversed the Wran government's policy on milk quotas. Dwyer has added that, "The NSW DFA [NSW Dairy Farmers' Association] had been moving towards transferable quotas. . . The advantage of the transferable quota system was that it would in the long run ensure a more efficient production outcome as the more efficient producers would be willing to pay higher prices for quota."⁷⁶ Edwards noted that "milk quotas which were hitherto transferable only with land were made negotiable independent of land from July 1990. Quota. . . [could] now be transferred freely across the state. . . Quota transferability. . . [was intended to] allow a shift in milk production to the cheapest producers."⁷⁷

In the 1992 the following Fahey government held talks with representatives of the industry and, a year later, with Ian Causley as Minister for Agriculture, succeeded in obtaining passage of the *Dairy Industry (Amendment) Act 1993*. This legislation essentially provided for deregulation of the dairy industry after 1 July 1998. It amended the *Dairy Industry Marketing Authority Act 1979* - as subsequently amended by the *Dairy Industry (Amendment) Act 1983* - by inserting a new section, 60D, which stated that, from 1 July 1998 onwards, the NSW Dairy Corporation "may not fix prices. . . and any order of the corporation fixing those prices ceases to have effect".

The Fahey government's *Dairy Industry (Amendment) Act 1993* also prepared the way for the greater positioning of the supermarkets in the retailing of milk by removing the legislatively fixed basis of the local milk run operator. Section 35C (1) provided that "on and from the deregulation date, the certificate of registration of a vehicle vendor is not to include any of the following conditions: (a) a condition restricting the places at which, the areas in which or the manner in which the holder of a certificate may distribute, supply or sell milk". Section 35E (1) provided for the buying out of vehicle vendors, by providing that "A Distribution Sector Rationalisation Scheme. . . is to be established and operated. . . to encourage and facilitate the rationalisation of the vehicle vendor distribution sector of the dairy industry." A milk vendor later informed a 1999 Senate inquiry into the Australian dairy industry (see section 4 of this paper) that, in his opinion, "the results of the deregulation of the vendor system have seen the farmer, vendor and consumers suffer and the processors and supermarkets gain."⁷⁸

Only two years after the Fahey government's state legislation, the Keating government decided on further changes to federal assistance for the dairy industry. This was implemented through obtaining passage of the *Dairy Industry (Amendment) Act 1995* and

⁷⁶ Dwyer, op.cit., p.79.

⁷⁷ Geoff Edwards, "Microeconomic Reform in Australian Agriculture" in Peter Forsyth (ed.), *Microeconomic Reform in Australia* (Allen and Unwin, Sydney, 1992), p.296.

⁷⁸ Parliament of the Commonwealth of Australia, *Deregulation of the Australian Dairy Industry*, report by the Senate Rural and Regional Affairs and Transport References Committee (Parliament of the Commonwealth of Australia, Canberra, 1999), p.60.

the *Dairy Produce Levy (Amendment) Act 1995*. This legislation introduced a Domestic Market Support (DMS) scheme. The Australian Dairy Corporation has subsequently summarised the scheme accordingly: “The scheme is designed to provide the same level of support to farmers, with a similar distribution of benefits, as the Crean Plan - but without any link to exports. All levy monies are . . . distributed to dairy farmers via a monthly DMS payment. . . DMS payments to individual farmers are based on the volume of manufacturing milk they supply to factories in a particular month. Under the new scheme, manufacturers no longer receive market support payments on exported products.”⁷⁹ *Australian Dairyfarmer* has described the details of the scheme as follows:

The DMS involves two levies. Farmers pay around 1.9 cents/litre on milk they sell for drinking milk. Manufacturers also pay a levy of 3.6 cents/litre on all milk used for dairy products consumed in Australia. These funds are pooled and used to make a market support payment (about 1.6 cents/litre in 1998/99) to farmers who supply manufacturing milk. . . In 1998/99 the DMS scheme provided a net gain of \$96 million to the industry - \$85.6 million in Victoria.⁸⁰

As far as state based arrangements are concerned, George Davey, chairman of the Conference of Australian Milk Authorities, has commented that by 1996, “Market place deregulation has occurred in most states. The authorities have ceased control of the maximum and/or minimum retail price of milk and monopoly on distribution zones for milk, allowing free competition in the movement of packaged milk. Processors buy their required milk and sell the milk products in all areas, at a price they determine.”⁸¹

3 THE IMPACT OF THE CHANGES IN OVERSEAS MARKETS, AND RECENT GOVERNMENT POLICY, ON THE NATURE OF THE DAIRY INDUSTRY IN NSW AND THE REST OF AUSTRALIA

(a) Shift in the National Locus of Production

During the 1920s and 1930s, New South Wales held a prominent position in Australian production of butter. This is shown by the following figures from the *National Handbook of Australia's Industries*:

⁷⁹ Australian Dairy Corporation, submission to the Senate Rural and Regional Affairs and Transport Committee, inquiry into Deregulation of the Australian Dairy Industry, May 1999, p.20.

⁸⁰ Australian Dairy Industry Council, “Milk Matters” in *The Australian Dairyfarmer*, November-December 1999, p.7.

⁸¹ George Davey, “Milk Production and Quality” in Australian Dairy Industry Council (ed.), *Australian Dairy: The Comprehensive Reference to the Australian Dairy Industry* (Morescope Publishing, Melbourne, 1996), p.89.

Australian Butter Production: 1931-1932

	Butter Quantity (tons)	%age of Australian Production (approx.)
Victoria	57,135	34%
New South Wales	52,613	32%
Queensland	42,433	26%
South Australia	6,173	3%
Western Australia	3,727	1%
Tasmania	3,132	1% ⁸²

By the late 1950s, and early 1960s - even before the loss of the butter export market in Britain - a marked shift in dairy production in Australia was becoming apparent, with Victoria emerging as the actual centre of dairying in the nation. Theodore Easton, a production director at Kraft Foods in Melbourne, provided the 1959 committee of inquiry into the dairy industry with the following statistics on dairy production in Australia during the late 1950s:

Australian Dairy Production: 1958-59

	Butter (Factory and Farm)	Cheese (Factory and Farm)	%age of national production (approx.)
Victoria	88,854 tons	17,296 tons	45%
Queensland	41,352 tons	8,119 tons	21%
New South Wales	39,210 tons	5,041 tons	19%
South Australia	7,046 tons	11,167	7%
Tasmania	11,049 tons	361 tons	4%
Western Australia	6,310 tons	1,157 tons	3% ⁸³

Thus by the end of the 1950s, and the beginning of the 1960s, Victoria was already the leading dairy producing state in Australia, with New South Wales, in comparison, having only about 19% of national production (and now ranking third amongst the states). One reason for this development was the growing consolidation of the industry that was taking

⁸² *National Handbook of Australia's Industries*, p.40.

⁸³ *Dairy Industry Committee of Enquiry 1959-1960*, vol.8, p.2202.

place in Victoria. Courtney Thomas, a Lismore accountant who handled the financial affairs of a number of participants in the dairy industry in northern NSW, told the 1959 inquiry that, “One point stands out fairly clearly - the farms with the larger herds and the capacity to feed them well are relatively better off than those with smaller herds because of the greater bulk of production.”⁸⁴ Another reason, offered by Corbett in 1975, was that “Some [NSW] farms are inaccessible for bulk transport and dairying. . .[has been] scattered over larger areas than in Victoria”.⁸⁵

By the early 1990s this trend had become even more pronounced, with Victoria accounting for 60% of national production.⁸⁶

(b) Revival of the Industry, Location of New Markets and Federal Government Promotion of Agri-Food Exports

Despite the setback suffered by the industry after the loss of the butter market in Britain, in 1973, dairy production gradually recovered during the 1980s. As an alternative to producing milk for butter - which, after the loss of the market in Britain, was no longer in demand - Australian processors turned to cheese production. Even before Britain joined the EEC, the Australian dairy industry, with the assistance of the Menzies government, began to develop markets in Asia for Australian dairy products. Norman Snow wrote in 1969 that a market for cheese “which is showing. . .growth is Japan, where sales have increased from less than 4,000 to over 9,000 tons in five years.”⁸⁷ After Britain joined the EEC, Australian exports of cheese to Japan were intensified. Lawrie Muller has written that, by the end of the 1970s, “Cheese production. . .[in Australia] reach[ed] 151,000 tonnes”.⁸⁸ Julian Cribb reproduced the following figures to indicate the industry’s revival:

⁸⁴ Ibid., vol.5, p.1365.

⁸⁵ Corbett, op.cit., p.167.

⁸⁶ Ali Abdalla and Trish Gleeson, “Dairy in the Australian Economy” in *Australian Dairy*, p.24.

⁸⁷ Snow, op.cit., p.8.

⁸⁸ Lawrie Muller, “History” in Australian Dairy Industry Council, op.cit., p.17.

Australian Dairy Production: 1980-1988

	Value of Production	Value of Exports
1980-81	\$840 million	\$281 million
1981-82	\$979 million	\$309 million
1982-83	\$1.1 billion	\$344 million
1983-84	\$1.15 billion	\$376 million
1984-85	\$1.1 billion	\$423 million
1985-86	\$1.2 billion	\$437 million
1986-87	\$1.3 billion	\$476 million
1987-88	\$1.4 billion	\$553 million ⁸⁹

Since, however, most dairy production takes place in Victoria, most of these cheese exports to Japan originated in Victoria, as production figures for each state, in the late 1980s, demonstrate:

Cheese and Butter Production by State (approx.): 1986-1987

	Cheese	Butter
Victoria	102,000 tonnes	90,000 tonnes
South Australia	27,000 tonnes	2,000 tonnes
Tasmania	17,000 tonnes	6,000 tonnes
Queensland	14,000 tonnes	4,000 tonnes
New South Wales	13,000 tonnes	1,000 tonnes
Western Australia	4,000 tonnes	1,000 tonnes
TOTAL	177,000 tonnes	104,000 tonnes ⁹⁰

Japan continues to be the main market for Australian cheese, in Asia, as the figures below demonstrate:

⁸⁹ Julian Cribb, "Record Exports and Increased Production Forecast by Bureau" in *The Australian*, 20 June 1988, p.11.

⁹⁰ Ian Langdon, *New South Wales Dairy Industry Rationalisation Study* (NSW Dairy Farmers Association, Sydney, 1988), p.50.

Australian Exports of Cheese to Japan: 1993-1997

1993	42,230 tonnes
1994	47,161 tonnes
1995	47,656 tonnes
1996	55,892 tonnes
1997	58,906 tonnes ⁹¹

To further the export of Australian rural products, both the Keating and subsequent Howard governments have inaugurated policy to facilitate the greater integration of primary production with food processing. In 1992 the two ministers in the Keating government whose portfolios dealt with food production - Simon Crean (Primary Industries and Energy) and John Button (Industry, Technology and Commerce) - issued a joint statement on what they termed “Australia’s agri-food industries” which foreshadowed the establishment, later in the year, of an Agri-Food Council: a body which could oversee a possible integration of primary production and food processing.

The more particular aim of this strategy was to increase exports of Australian processed rural exports to Asia. In October 1993 the then Minister for Science, Chris Schacht, while on a visit to Germany, was reported in the press as having,

urged Europe’s food giants to use Australia as a springboard to mount an assault on Asian food markets.⁹²

After the election of the Howard government, in 1996, this strategy has been repackaged under the slogan “Supermarket to Asia”. On 12 September 1996 the Prime Minister issued a press release in which he announced the re-configuration of the policy as follows:

I have a great deal of pleasure in today launching the Prime Minister’s Supermarket to Asia Council and I believe the outcome of its deliberations will provide new opportunities and a real focus for rural and regional Australia. This council will bring together government and industry leaders to work together on removing barriers to greater exports of food in the region. . .⁹³

⁹¹ Australian Dairy Corporation, *Australian Dairy Compendium 98* (Australian Dairy Corporation, Melbourne, 1998), p.66.

⁹² Julian Cribb, “Bid to Woo European Food Giants” in *The Australian*, 11 October 1993, p.5.

⁹³ *Supermarket to Asia*, press release, The Prime Minister, the Hon. John Howard MP, 12 September 1996.

(c) **General Consolidation of the Dairy Industry: in NSW and the Rest of Australia**

Through the period of the 1950s to the 1980s, the various co-operatives, that had once existed so numerous in the industry, began to amalgamate. As mentioned in sub-section 2(h) above, the aim of the 1986 Kerin plan was to get the various units in the dairy industry to amalgamate and focus on exports. In Victoria, the centre of the national dairy industry, the late 1980s saw the growth of the Murray Goulburn co-operative (with the acquisition of the North East Dairy Company in 1986); and the emergence of the present-day Bonlac (formed through amalgamations of the Camperdown-Glenormiston, Colac and ACMAL co-operatives) and Bonlac's subsequent acquisition of the British-owned Unigate Australia.⁹⁴

By the time that the Greiner government took office in 1988, eleven co-operatives remained in NSW milk production:

NSW Dairy Co-operatives: 1987-1988

	Production of Milk
Bega	89.2 million litres
Berrima	15.8 million litres
Berry	13.1 million litres
Comboyne	12.6 million litres
Dairy Farmers	165.3 million litres
Gerringong	10 million litres
Grafton	8.4 million litres
Hastings	21.1 million litres
Hunter Valley	154.8 million litres
Norco	150.8 million litres
Shoalhaven	59.6 million litres
TOTAL	700.7 million litres⁹⁵

⁹⁴ Australian Dairy Corporation, *Structural Changes in the Dairy Industry* (Australian Dairy Corporation, Melbourne, 1998).

⁹⁵ Langdon, *New South Wales Dairy Industry Rationalisation Study*, p.41.

As the Victorian dairy industry consolidated and grew - leading to the emergence of Murray-Goulburn and Bonlac - this, in turn, induced consolidation in the NSW industry. As Gavan Dwyer commented, “the Victorian trade has forced. . .[NSW] to respond commercially.”⁹⁶ As the above table shows, by 1987, five co-operatives continued to stand out in the NSW dairy industry: Dairy Farmers, Hunter Valley, Norco, Bega and Shoalhaven. Gradually each one became susceptible to pressure to amalgamate. Ryan observed that, even before the Greiner government took office, “Norco [had already] made an offer of about 4.3 million dollars . . .to the Manning Valley Dairy Co-operative. Unfortunately that company declined the merger offer in favour of joining the Dairy Farmers Co-operative in January 1988. In doing so it virtually sealed the fate of Norco.”⁹⁷

As the Greiner government continued in office, amalgamation in the industry continued to be pursued. After gaining office, the Greiner government established a committee to examine rationalisation of the NSW dairy industry, prior to foreshadowed de-regulation. Maurice Ryan has written that “In 1988 Warren Noble [chairman of Norco] became chairman of a rationalisation committee set up to investigate changes [to the dairy industry] . . .The committee was made up of [the] five major co-operatives - Norco, Hunter Valley, Dairy Farmers, Shoalhaven and Bega. Norco’s part in this scheme to form a giant co-operative came to an end in March 1989 when Warren Noble flagged the idea that Norco would withdraw from the arrangements. Bega also withdrew.” Subsequently, during 1989-1990, the Hunter Valley and Shoalhaven co-operatives joined the Dairy Farmers’ Co-operative to form Australian Co-operative Foods (ACF).⁹⁸

Another year later, during 1990-1991, the dairy operations of the failing Adelaide Steamship group amalgamated to form National Dairies. Adelaide Steamship’s concerns had included Allowrie Foods, Pura Foods, Provincial Dairies, Farmers’ Union and Tasmaid Foods. National Dairies, in turn, operated as a subsidiary of the newly formed National Foods group of companies. By the time that the Fahey government obtained passage of its *Dairy Industry (Amendment) Act 1993*, National Foods had acquired another major Sydney milk processor: United Dairies. In Queensland, Queensland United Foods (QUF), which controlled Pauls (in Brisbane), began to extend its operations into Victoria: acquiring Ballarat Modern Dairies and Horsham Modern Dairies. The status of production in 1993 was summarised by the Australian Dairy Council as follows:

Today [1993] Bonlac Foods and Murray-Goulburn Co-operative Ltd, the two largest manufacturers. . .account for around 40 per cent of total milk intake, used mostly in the manufacture of export and domestic cheese, milk powders and butter. Australian Co-operative Foods, a New South Wales based co-operative formed in the early 1990s. . .is the biggest single processor of liquid milk. There are also several large privately owned operations, including affiliates of overseas based dairy

⁹⁶ Dwyer, op.cit., p.87.

⁹⁷ Ryan, op.cit., p.386.

⁹⁸ Ryan, op.cit., p.387.

companies such as Kraft and Nestle.⁹⁹

In 1994, in New South Wales, National Foods sold off its Orange, Kempsey and Wyong operations - these being purchased by Australian Consolidated Foods.

Two years later, in 1996, Australian Co-operative Foods and Queensco Unity (of Queensland) merged to form the Dairy Farmers Group. By this time, ACF had annual sales revenues of around \$630 million and earnings (before interest and tax) of about \$32 million.¹⁰⁰

Meanwhile, Norco decided to merge with Dairyfields (based on the Gold Coast): the new concern being known as Norco Dairyfields Milk (NDM). Because QUF had already had a share of Dairyfields the controlling interests in NDM were Norco (45%), Dairyfields (33%) and Paul's (22%). In Victoria, Bonlac extended its operations by purchasing the primary products division of National Foods (essentially its Allowrie Farmers operations): leaving National Foods to focus on householders' milk and soft dairy products. During 1997, the Dairy Farmers Group purchased, from Kraft, the Coon, Fred Walker, Mil Lel and Cracker Barrel brands. DFG also decided to merge with Malanda Foods (a Queensland co-operative). A year later, in 1998, the Dairy Farmers Group absorbed Dairy Vale Foods (based in South Australia). National Foods, in turn, announced a nation-wide upgrade of its milk-processing plants, including those at Penrith and Taree. By this stage the top five milk-processing companies in Australia were as follows:

Main Five Milk-Processing Companies in Australia by Ranking: 1997-98

Murray-Goulburn
Bonlac
Dairy Farmers Group
National Foods
Parmalat (Pauls) ¹⁰¹

In financial year 1997-1998, Murray-Goulburn, Bonlac and Dairy Farmers accounted for 74% of all milk intake.¹⁰²

⁹⁹ Australian Dairy Corporation, "Dairy Industry" in Barry Pestana (ed.), *Australian Agriculture*, fourth edition (Morescope Publishing, Melbourne, 1993), p.126.

¹⁰⁰ Ian Langdon, "Dairy Company Structures" in *Australian Dairy*, p.72.

¹⁰¹ *Deregulation of the Australian Dairy Industry*, p.19.

¹⁰² *Deregulation of the Australian Dairy Industry*, p.8.

(d) Present Nature of the Dairy Industry in NSW

As indicated above, since most of dairy production - and particularly manufacture of dairy products - tends to take place in Victoria, the greater part of milk production in New South Wales is product for purchase by householders. This indicated by the following table for milk production in the early 1990s:

Australian Milk Production 1992-1993 (estimated)

	Householders' Milk	Manufacturing Milk	%age of national production (approx.)
Victoria	454 million litres	4,514 million litres	61%
New South Wales	607 million litres	490 million litres	14%
Queensland	356 million litres	408 million litres	9%
Western Australia	165 million litres	291 million litres	6%
Tasmania	53 million litres	394 million litres	6%
South Australia	180 million litres	164 million litres	4% ¹⁰³

The significance of these figures is manifested in the way in which Victoria has remained prominent in cheese and butter production during the late 1980s and during the first half of the 1990s, as indicated by the following statistics, for both types of product:

Cheese Production by State (in tonnes) : late 1980s to the mid-1990s

	Victoria	S.A.	Tasmania	Queensland	NSW	WA	TOTAL
1988	102,439	25,497	16,255	15,198	13,142	3,772	176,303
1989	114,893	24,704	18,671	14,424	14,506	3,586	190,784
1990	103,216	22,774	18,172	12,842	14,198	4,129	175,331
1991	104,515	24,524	19,413	12,398	13,328	5,256	179,433
1992	123,070	23,496	20,022	11,883	14,180	5,381	198,032
1993	128,250	25,841	20,043	13,766	16,919	5,806	210,625
1994	143,655	26,675	22,461	16,502	19,163	5,169	233,625
1995	125,151	27,215	20,485	15,330	16,123	6,660	210,963 ¹⁰⁴

¹⁰³ Abdalla and Gleeson, *ibid.*

¹⁰⁴ Davey, *op.cit.*, p.95.

Butter Production by State (in tonnes): late 1980s to the mid-1990s

	Victoria	Tasmania	Queensland	NSW	W.A.	S.A.	TOTAL
1988	82,128	3,882	3,487	1,057	1,505	2,182	94,241
1989	83,282	4,276	3,687	1,226	1,139	2,242	95,852
1990	90,071	5,051	4,195	1,106	1,339	2,396	104,158
1991	89,600	5,381	3,606	971	1,478	1,582	102,618
1992	94,326	5,589	3,423	1,416	2,048	1,248	108,050
1993	106,887	6,287	5,873	3,377	2,665	1,368	126,457
1994	118,558	7,846	6,773	5,046	3,192	1,345	142,761
1995	120,127	8,018	5,462	4,628	3,947	685	142,867 ¹ ₀₅

By the late 1990s the disparity between Victoria and New South Wales (and between Victoria and all the other states in Australia) has increased even more, as demonstrated by the figures for milk production in 1996-1997:

Milk Production in the Australian States: 1996-1997

	Volume of Milk	%age of National Total
Victoria	5,634 million litres	62%
New South Wales	1,192 million litres	13%
Queensland	797 million litres	8%
South Australia	535 million litres	6%
Tasmania	529 million litres	6%
Western Australia	349 million litres	4% ¹⁰⁶

In 1997 the consolidation of the dairy industry, in New South Wales, has reached a point where, although there are even fewer farms than in 1993, those that exist have around (on average) 100 cows per holding and therefore considerably more viable than the much smaller, and much more numerous, entities than existed forty to sixty years ago. The figures for 1996-97 are as follows:

¹⁰⁵ Ibid.

¹⁰⁶ *Deregulation of the Australian Dairy Industry*, p.13.

Dairy Farms and Dairy Cattle in New South Wales: 1996-97

	Dairy Farms	Dairy Cattle
1996-97	1,851	235,000 ¹⁰⁷

The nearly 1,800 dairyfarmers that are left in the state industry tend to produce milk for companies like Dairy Farmers who, in turn, sell it to supermarket chains such as Woolworths and Coles.

Milk in the state is still marketed through the NSW Dairy Corporation and is produced on the basis of a quota system. As the NSW Department of Agriculture's *Dairy Industry Situation Statement* points out: "Control of all milk produced in New South Wales is vested in the NSW Dairy Corporation (NSWDC) and the corporation sets the farm gate price for liquid milk. Milk not required by the corporation is used by processors for manufacturing."¹⁰⁸ The NSW government review group has added that, in 1997, "97 per cent of NSW dairy farmers hold quota. . . Only 3 per cent of registered farms hold no quota and supply only manufacturing milk."¹⁰⁹ The review group has outlined the distribution of milk quotas throughout NSW in 1997 as follows:

Distribution of Milk Quota in NSW by Farms: 1997

Quota	Number of Dairy Farms	%age of All NSW Dairy Farms
under 100,000 litres	239	13%
100,000 - 300,000 litres	819	45%
300,000 - 500,000 litres	448	24%
500,000 - 700,000 litres	204	11%
700,000 - 900,000 litres	68	4%
900,000 - 1,100,000 litres	29	2%
1,100,000 - 1,300,000 litres	13	0.5%

¹⁰⁷ NSW Dairy Corporation, *ibid.*

¹⁰⁸ *Ibid.*

¹⁰⁹ NSW Government Review Group, *op.cit.*, p.26.

1,300,000 - 2,000,000 litres	9	0.5%
over 2,000,000 litres	8	0.5%
TOTAL	1,837	100%¹¹⁰

The distribution of dairy farms holding quota, by region, is as follows:

Dairy Farms Numbers in NSW, 1995-96: By Region and Average Quota Holding

	Dairy Farms	Average Quota per Farm
Northern	812	255,000 litres
Central	396	471,000 litres
Southern	546	395,000 litres
Inland Local Areas	103	480,000 litres ¹¹¹

4 THE HOWARD GOVERNMENT'S PROPOSED REMOVAL OF FEDERAL ASSISTANCE TO THE DAIRY INDUSTRY

(a) The Federal Government's Proposals

On 28 September this year, the Howard government announced that it was considering phasing out the Domestic Market Support scheme. Those dairyfarmers, who would find commercial viability difficult without the DMS, would be assisted by the government to leave the industry. The essence of the proposal has been summarised by *Australian Dairyfarmer* as follows:

Recognising the commercial inevitability of deregulation, the Commonwealth Government announced on September 28 [1999] that it would support a dairy structural adjustment package. This is subject to all states and territories agreeing to de-regulate their farm-gate pricing arrangements from July 1, 2000. . . In eight months' time, from July 1 2000, this financial restructure will be available to all eligible dairyfarmers. Subject to finalisation of agreed guidelines, restructure entitlements will be paid to eligible dairyfarmers on the basis of 46.23 cents per litre for market milk and 8.96 cents per litre for manufacturing milk produced in the base year 1998/99. In NSW, Queensland and WA, there will need to be adjustments made for quota traded. Restructure entitlements will be paid quarterly, in equal instalments, for eight years, calculated from July 1, 2000. The quarterly payments

¹¹⁰ Ibid.

¹¹¹ Ibid., p.27.

will be treated as assessable income in the year they are paid. . .Where restructure entitlements exceed \$350,000, eligible dairyfarmers will have to demonstrate that a minimum 70% of their total income in 1998/99 was earned from dairy production. . .The restructure package will be funded by an 11 cents-per-litre levy on all liquid milk products. . .The levy would be imposed at the retail level, but collected by the wholesalers. . .The market milk regulations have kept a premium farm-gate price in place for producers. The removal of regulations will mean that the farm-gate price will be set by commercial negotiations. It is likely to drop by 11 to 15 cents per litre.¹¹²

(b) The Main Supporters of Deregulation

The principal dairy producing groups, driving the final deregulation of the industry, are those based in Victoria (where the greatest amount of dairying is undertaken). Phil Scanlon, the managing director of Bonlac Foods, stated recently that “Bonlac Foods is a strong advocate of the adjustment package because it will benefit our shareholder farmers”.¹¹³

(c) Reasons for Support of Deregulation

The Victorian position on deregulation was recently presented to a Senate committee on rural and regional affairs, by the current president of the United Dairyfarmers of Victoria (Max Fehring):

When those other states have attempted to get into other products that we do, they do not have the scale of efficiency to do it. But in recent times, because of the extra milk production which has been some of this cross-subsidisation debate, they have been entering those markets, we believe, detrimentally to us, because they have been producing small volumes of product which has a tendency either to try and capture some commercial markets that we have had domestically or they dump it on to the export market because they have a smaller volume to get away with.¹¹⁴

The NSW Dairy Farmers’ Association summarised the Victorian position in their own words, in a presentation to the same Senate inquiry:

Victorian co-operatives claim that the market milk system - paying a significant premium above manufacturing milk prices - provides too much income to farmers in states such as NSW. . .This allows those farmers to subsidise the production of greater volumes of milk which are directed to manufacturing products. They argue

¹¹² The Australian Dairy Industry Council, “Milk Matters” in the *The Australian Dairyfarmer*, November-December 1999, pp.10-11.

¹¹³ Phil Scanlon, “Brighter Future for Dairy Farmers” in the *Sydney Morning Herald*, 11 October 1999, p.17.

¹¹⁴ *Deregulation of the Australian Dairy Industry*, p.50.

that this puts more products into domestic markets at prices which are more competitive against Victorian produce than they would otherwise be.¹¹⁵

(d) Arguments against Deregulation: from NSW and other States

Understandably, it is dairy farmers from NSW, and other states, who oppose deregulation. Some of the observations put forward are reminiscent of opinions voiced in the 1920s and 1950s by those farmers who produced milk for butter. The NSW Dairy Farmers' Association told the Senate inquiry that continued fixing of prices would "Provide farmers with a fair and reasonable share of the retail price for milk going into this liquid milk market - a price. . . which is not otherwise attainable because of. . .the combined power of processing and retail oligopolies".¹¹⁶

A group of dairy farmers from Gympie, in Queensland, also gave their views, to the committee, on what they believed would eventuate after deregulation:

The major processors Pauls/Parmalat, Dairy Farmers, Murray Goulburn, Bonlac . . . National Foods will have the power to ruthlessly contract with farmers for lowest price, using cheap Victorian product in plentiful supply as a bargaining lever. . . Processors and supermarkets will compete for market share with great vigour and pass the costs on to producers and consumers alike and pocket the profits at the end of the day.¹¹⁷

Other groups, presenting the consumers' point of view, have expressed reservations about deregulation. The magazine *News Weekly*, via its publisher Peter Westmore, has cited the managing director of National Foods (producer of Pura Milk) as stating that "price rises were an inevitable result of deregulation." Westmore also cites the managing director of Dairy Farmers as declaring that "there should never have been any expectation of lower milk prices after deregulation."¹¹⁸

¹¹⁵ Ibid., p.51.

¹¹⁶ Ibid., p.56.

¹¹⁷ Ibid., p.59.

¹¹⁸ Peter Westmore, "Milk Deregulation: Only Winners are the Supermarkets" in *News Weekly*, 20 November 1999, p.8.

5 PARMALAT AND NSW DAIRY PRODUCTION

(a) Parmalat's Size and Extent of Operations

The Parmalat food group was established in Italy in 1962. Its headquarters are in Milan. It currently has world wide sales of 9,833 billion lire and operates 162 plants employing 39,349 people. Its sales have developed over the last 30 years as follows:

Parmalat: Expansion of Sales 1970-1998

1970	6 billion lire (A\$5,923,000)
1980	289 billion lire (A\$285,291,214)
1990	1,101 billion lire (A\$1.08 billion)
1992	1,637 billion lire (A\$1.6 billion)
1993	2,845 billion lire (A\$2.8 billion)
1994	3,608 billion lire (A\$3.6 billion)
1995	4,290 billion lire (\$4.2 billion)
1996	5,465 billion lire (A\$5.4 billion)
1997	7,120 billion lire (A\$7.02 billion)
1998	9,833 billion lire (A\$9.7 billion) ¹¹⁹

Parmalat operates in the following countries - divided into continental regions - throughout the world:

¹¹⁹ Parmalat Finanziaria spa, *Financial Statements and Consolidated Financial Statements as at December 31, 1998* (Parmalat, Milan, 1999), pp.9,12. The amounts in lire have been converted to 1998 Australian dollars on the basis of the exchange rate used in page 102 of the Parmalat financial statements (1,103 lire to A\$1 or approximately 1,000 lire to A\$1).

Parmalat Operations throughout the Nations of the World: 1998

Europe	North America	South America	Asia	Africa	Australasia
Italy	Canada	Ecuador	China	Mozambique	Australia ¹²⁰
Spain	USA	Colombia	India	Zambia	
Portugal	Mexico	Venezuela		South Africa	
France		Brazil			
Germany		Paraguay			
Romania		Chile			
Hungary		Uruguay			
Ukraine		Argentina			
Russia					

Although Parmalat operates in many countries, its main activities can be grouped into those in Europe, North America and South America. This is illustrated by the figures for Parmalat's sales and operations by global region:

Parmalat's Operations by Global Region: 1998

	Sales	Factories	Employees
South America	3,616 billion lire (A\$3.5 billion)	48	19,419
Europe	2,883 billion lire (A\$2.8 billion)	35	6,120
North America	2,659 billion lire (A\$2.6 billion)	47	7,203
Africa/Asia/ Australasia	675 billion lire (A\$666 million)	32	6,607 ¹²¹

Parmalat has clearly expanded its operations by the continued acquisition of companies in other countries. During 1998 the company continued to pursue this strategy, as the list of acquisitions, detailed by Parmalat's 1998 annual report, indicates:

¹²⁰ Ibid., pp.12-13.

¹²¹ Ibid., pp.22,31.

Parmalat's Acquisition of Overseas Companies: 1998

	Company Name	Company's Sales for 1998	Cost of Acquisition to Parmalat
Brazil	Batavia Etti Neugebauer	620 billion lire (A\$612 million) 233 billion lire (A\$230 million) 42 billion lire (A\$41 million)	159 billion lire (A\$157 million) 158 billion lire (A\$156 million) 12 billion lire (A\$11.8 million)
USA	Sunnydale Clinton Milk/Kinner Dairies/Welsh Farm Peelco/Peeler	253 billion lire (A\$250 million) 250 billion lire (A\$247 million) 40 billion lire (A\$39 million)	21 billion lire (A\$21 million) 128 billion lire (A\$126 million) 21 billion lire (A\$21 million)
South Africa	Bonnita Towerkop/Dun Robin	300 billion lire (A\$296 million) 140 billion lire (A\$138 million)	190 billion lire (A\$187 million) 70 billion lire (A\$69 million)
Spain	Clesa	300 billion lire (A\$296 million)	159 billion lire (A\$157 million)
Colombia	Proleche	150 billion lire (A\$148 million)	70 billion lire (A\$69 million)
Canada	Astro	70 billion lire (A\$69 million)	55 billion lire (A\$54 million)
Russia	Belgorod	42 billion lire (A\$41 million)	19 billion lire (A\$18 million)
Hungary	Cegled	30 billion lire (A\$29 million)	5 billion lire (A\$5 million) ¹²²

(b) Parmalat's Expansion into Queensland

In 1998, Parmalat acquired the interests of Paul's, in Brisbane. The process of acquisition has been summarised in the company's annual report accordingly:

In August [1998] Parmalat Australia Pty Ltd completed the acquisition through takeover bid of the entire share capital of the Australian company Pauls Limited, based in Brisbane and listed on the Sydney Stock Exchange, paying a total of 415 million Australian dollars (about 444 billion lire). Pauls, which at the time of acquisition, had financial debts totalling 62 million Australian dollars, is, as regards size, one of the largest three Australian companies operating in the dairy sector. . . [in] Queensland, Victoria and the Northern Territory. Pauls financial statements for the period ended 30 June 1998 showed sales of approximately 625 million dollars and an operating cash flow of 46 million Australian dollars. . .¹²³

Parmalat did not, however, acquire Pauls simply for its own sake but as part of a larger expansionary strategy in South-East Asia based on the winding down of regulation, and ongoing consolidation, in the Australian dairy industry. In its annual report, Parmalat noted that,

The recent acquisition of Pauls was strategic for the group's penetration of the richly populated Australian and South-East Asian regions. Pauls will be able to develop margins to group level in two to three years, owing to the market consolidation presently underway in Australia. South-East Asia has high potential and, for companies in the food sector, this region offers good growth prospects for the future. Parmalat, in particular, will be able to build up in the long term an important market for milk and milk derivatives.¹²⁴

(c) Parmalat's Endeavours to Expand into NSW

In late August 1999, Parmalat presented a merger proposal to Dairy Farmers. About the same time that this occurred, officials in Dairy Farmers were circulating a proposal which, according to Mark Todd, involved "restructuring Dairy Farms into separate business and supply units. . . [so that] The new business unit. . . would receive financial flexibility from a listing on the stock exchange."¹²⁵ The main features of the proposal were summarised, in a Parmalat press release, accordingly:

¹²³ Ibid., pp.29-30.

¹²⁴ Ibid., p.40.

¹²⁵ Mark Todd, "Big Week Ahead for Dairy Farm" in the *Sydney Morning Herald*, 11 October 1999, p.39.

- The merger would be effected by the sale of Pauls Limited to Dairy Farmers for consideration of 107,396,760 shares to be issued by Dairy Farmers.
- Parmalat's merger proposal would place an enterprise value (equity plus net debt) on Dairy Farmers of \$676 million. After deducting debt Parmalat would value Dairy Farmers' equity, for the purposes of both the merger and the cash payment to farmer members (explained below), at \$471 million or \$4.02 per share.
- The valuation of Dairy Farmers would be derived by applying a multiple of 13.5 times EBIT [earnings before interest and tax] for the year to 30 June 1998.
- On the same basis, Parmalat has assessed the enterprise value of Pauls at \$561 million and the equity at \$431 million.
- Parmalat proposes to make a cash payment of \$4.02 per share in respect of a minimum of 25% of the shares in Dairy Farmers held by each of the members.
- Parmalat proposes a share sale facility for the balance of all the shares held by members of Dairy Farmers whereby:
 - (a) until 31 December 2000, Parmalat will accept all shares offered at \$4.02 cash per share;
 - (b) after 1 January 2001 members can sell their shares in March each year to Parmalat for a cash consideration calculated using a multiple of 15 times the audited value after tax earnings per share;
- a new supplier co-operative would be formed with each farmer member of Dairy Farmers eligible for membership, holding one share of \$1 each. That new supplier co-operative would enter into a milk supply agreement with the merged entity adopting the principles summarised in section 7 of the Dairy Farmers restructure proposal. The agreement would be a ten year rolling one, which would provide members with ongoing security for supply and price for market and manufacture milk. No ongoing contributions to capital will be required from Dairy Farmers members.
- after the merger Parmalat would own a minimum of 60.9% of the equity of the merged entity.

In commenting on the merger proposal the chairman of Parmalat, Calisto Tanzi, stressed the potential of Parmalat to assist in the policy of increasing Australian food exports to Asia. He was cited in the press release as saying that,

the merger of Pauls and Dairy Farmers will offer both companies significant synergies. The stronger merged entity will have far better prospects for participating fully in the growth of the food industry in Australia as well as an enhanced ability to increase exports through the worldwide network of the Parmalat group.¹²⁶

On 6 September, officials from Dairy Farmers circulated the proposal from Parmalat with observations that, subsequently, soon became the subject of a court case mounted by other members of the co-operative. According to a *Sydney Morning Herald* newspaper report of the decision handed down by Justice Robert Austin in the NSW Supreme Court (on 11 October) “instead of simply distributing the Parmalat proposal, the board chose to comment on it in a disparaging way.” The article noted that “Justice Austin also ruled that a decision by Dairy Farmers to offer members the chance to recast their votes [on restructuring] in light of the Parmalat proposal was unlawful.”¹²⁷

CONCLUSION

Looking back over the years at NSW dairy production - from its early origins, its peak of production in the mid-1930s and its relative decline since then - it would appear that since the loss of the UK market, in 1973, a path has been laid out for the industry. This path, evidently pursued by both the Keating government (at a federal level), and the Greiner and Fahey governments (at a state level) seems to entail the eventual outright commercialisation of the industry. Such a path already seems to have shaped the progress of the industry in Victoria: with the emergence of two, big highly commercialised concerns. Allied to this strategy is a desire to integrate the dairy industry into an overall plan to increase the quantity of Australia's exports of processed rural products. The issue of Parmalat's emergence into this scenario, in New South Wales, remains to be seen. However, as the Australian Dairy Industry Council itself observed, “With a managed approach to a deregulated environment, the industry can continue to build on its past success and become an even more significant contributor to the Australian economy.”¹²⁸

¹²⁶ *Parmalat Proposes to Merge Pauls Limited and Dairy Farmers*, press release Parmalat Regional Headquarters Australia-Asia (Brisbane), 31 August 1999.

¹²⁷ Mark Todd and Bruce Walkley, “Dissidents Push for Resignations” in the *Sydney Morning Herald*, 12 October 1999, p.25.

¹²⁸ Australian Dairy Industry Council, “Milk Matters” in *The Australian Dairyfarmer*, November - December 1999, p.13.