



Speech by

Hon. HENRY PALASZCZUK

MEMBER FOR INALA

Hansard 10 November 1998

DAIRY INDUSTRY AMENDMENT BILL

Hon. H. PALASZCZUK (Inala—ALP) (Minister for Primary Industries) (2.48 p.m.): I move—

"That the Bill be now read a second time."

The purpose of this Bill is to amend the Dairy Industry Act 1993. It will implement the recommendations of the National Competition Policy review of the Dairy Industry Act 1993 conducted by the Queensland Dairy Legislation Review Committee. It will also give effect to the recommendations of the Supply Management Working Group, which conducted a subsidiary review process to complement the work of the committee.

The Bill will—

continue to allow, for a five-year period from 1 January 1999 to 31 December 2003, the setting of a minimum price to be paid for the purchase of milk from producers and processors for processing as market milk; and

extend the existing supply management arrangements applying in south-east Queensland to the entire State's dairy industry for the five-year period.

In addition, it will make a number of miscellaneous amendments, including amendments necessary as a result of deregulation of the dairy industry beyond the farm gate on 31 December 1998, as previously agreed and provided for in the 1993 Act.

The provisions relating to price and supply management are seen as critical to the continued success of the Queensland dairy industry. They are the outcome of a very comprehensive review process and public benefit test. However, it is important to realise that while the requirements of National Competition Policy—NCP—were the initial reason for the review process, Queensland's dairy industry continues to be subject to a range of rapidly changing market forces and these are just as important as NCP in the formulation of the legislation now before this House.

These changing market forces have resulted in a climate of uncertainty with respect to a number of major issues impacting on policy determination. They include the NCP reviews in other States, the scheduled termination of the Commonwealth's Domestic Market Support Scheme and the market changes to follow post farm gate deregulation in Queensland from 1 January 1999. In addition, the severity of the impact of the Asian economic crisis on Australian exports of manufactured dairy products to this region is yet to be fully determined.

The Asian impact, the termination of the Domestic Market Support Scheme from 30 June 2000 and the fact that Australian dairy exports compete in a world market distorted by export subsidies and import restrictions can all be expected to exert considerable pressure on the Victorian industry to enter fresh milk markets in other States. Victoria, as the major milk-producing State, is likely to exert a significant influence on the rate and form of industry adjustment, particularly in New South Wales and in Queensland.

Deregulation beyond the farm gate in Queensland takes effect on 31 December 1998 in terms of the sunset provisions already contained in the Dairy Industry Act 1993. These will remove exclusive processor franchise and milk distribution arrangements as well as milk price control in the wholesale and

retail sectors and will give rise to changes in the Queensland market from the ensuing competition for market share.

The New South Wales Government has recently completed its NCP review and has decided to retain a regulated farm-gate price and associated supply management arrangements for a five-year period, with a further review by July 2003 or sooner should industry conditions dictate. Victoria will commence its review during this financial year. Similar reviews will be undertaken in all Australia States.

Against this backdrop, a review of the Dairy Industry Act 1993 was undertaken by the Queensland Dairy Legislation Review Committee and a public benefit test was undertaken of the restrictions on competition in the legislation. The National Competition Policy requirements, of course, arose in April 1995, when the Council of Australian Governments— or COAG as it is known—comprising of the Commonwealth, State and Territory Governments and the Australian Local Government Association signed a set of agreements to implement this policy.

One of the agreements, the Competition Principles Agreement, requires States to review any legislation restricting competition and undertake a public benefit test to ascertain whether any anti-competitive arrangements should be continued or changed. The public benefit test for the dairy industry review was conducted by independent consultants to answer the question of what the market structure, prices and market shares might be like in the future under both regulation and deregulation. To underpin this analysis there has been widespread public consultation, which included all dairying areas of Queensland, over a 15-month period. Two issues papers were released, public hearings were conducted, numerous written submissions were received and there were two publicly released reports.

The outcome of the consultation is the overwhelming support by the dairy industry— both producers and processors—and associated rural communities to continue legislative arrangements for a transitional period of adjustment of up to five years. Some segments of industry wish this to be indefinite but, given the industry environment and future expected adjustments in other States, it is not practical to determine a longer term position.

The outcome of the public benefit test was that a strong case could be put forward to continue the use of regulation to allow industry time to adjust to the ongoing rationalisation occurring in the dairy industry throughout eastern Australia. Social and regional impacts were very important in this analysis—and not just economic issues. In economic terms, the public benefit test showed that the economic efficiency gains from immediate deregulation were small, whereas significant adjustment costs are likely to arise, with adverse social and regional impacts in dairying areas if deregulation was imposed immediately.

The Government has accepted the overriding conclusion that, while market forces will continue to cause adjustment and restructuring within the dairy industry, there is a need for a managed transition period to provide certainty for industry and to avoid adverse impacts associated with immediate deregulation. Accordingly, the Government has agreed to continue legislative arrangements for the pricing of market milk purchased from producers and processors and to extend statutory supply management arrangements, currently only applying in south-east Queensland, to the entire State. Consequently, the Bill—

- provides the Queensland Dairy Authority with continued power to fix a minimum price to be paid for the purchase of milk for processing as market milk;

- extends the existing supply management arrangements in south-east Queensland to the entire State by requiring the Authority to grant market milk entitlements—that is, an entitlement to supply milk for processing as market milk—to the central and north Queensland dairying areas;

- sets out criteria that the authority is to take into account to ensure that entitlements are granted fairly, including the provision of appeal rights;

- ensures that producers receive market milk payments based on the minimum price and a fixed proportion of total Queensland monthly market milk sales, and gives the authority a power to make directions requiring payments to be made between processors to enable payment obligations to producers to be met;

- allows the authority to continue to license producers and processors as a mechanism to support the minimum price and the supply management arrangements;

- provides a sunset date of 31 December 2003 for the power of the authority to fix a minimum price for the purchase of milk for processing as market milk and the supply management arrangements;

- specifically authorises certain anti-competitive conduct about the minimum price and supply management arrangements for the purposes of the Trade Practices Act 1974 (Cwlth); and

- omits a number of redundant provisions contained in the legislation no longer required after 31 December 1998 when deregulation of the dairy industry beyond the farm gate occurs.

The need to extend supply management arrangements arises, in part, from post farm-gate deregulation. When processor market area franchises cease on 31 December 1998, along with retail milk price controls and exclusive vendor areas, a producer's market milk access cannot be guaranteed. Competition between processors, for example, for supermarket supply contracts is likely to result in changes to processors' market shares, with losses in market milk sales by some processors and gains by others. These changes could significantly reduce some producers' incomes and cause adverse regional impacts.

The Bill will ensure that individual producers continue to receive equity of access to market milk sales and ensure that there is price and supply certainty for both producers and processors. It will also provide an important industry adjustment mechanism by giving all producers a tradeable entitlement to facilitate internal buying and selling of quota, so that those wishing to stay in the industry can become larger and those wishing to leave can sell.

The supply management arrangements will not prevent any new producer or processor from entering the industry. They will, however, protect producers' existing market milk access so that any new producer wishing to enter or expand must do so by purchasing from the existing pool of entitlements. Also, all processors will be required to pay entitlement holders the minimum price for milk for processing as market milk.

These legislative arrangements will apply for a transitional period of five years. Government, however, acknowledges that an earlier review may be necessary, depending upon the rate of change of market forces and the outcomes of reviews in other States which impact on the Queensland dairy industry. Essentially, the Bill maintains sufficient regulation to protect farmers' existing entitlements and access to the market milk returns and to continue Government price setting. However, it must be acknowledged that this will occur within an environment of downward pressure on prices as a result of competition among processors, market power being exercised by the large retailers and likely interstate developments. Nevertheless, the Bill will provide a great deal of certainty for Queensland dairy farmers and stability for the industry.

The amendments will not remove market signals but will give farmers time to adjust to the changing face of industry at a pace that the industry can absorb. The Bill will encourage industry adjustment to assist the industry in becoming more competitive compared with interstate suppliers and in response to overseas market forces. Industry will need to operate in a more market oriented environment in order to remain an efficient and sustainable industry in the longer term.

The Government is acting swiftly and responsibly on the dairy industry review after it was stalled by the previous Government. The bottom line is that immediate deregulation would have caused enormous upheaval to the industry with reduced incomes for producers and disrupted producer access to market milk sales. This, in conjunction with the predicted adverse regional impacts, can hardly be seen as being to the benefit of the community overall.

The Bill clearly demonstrates that the Government is committed to improving the effectiveness and efficiency of Queensland's dairy industry, but never at the expense of secure employment or a blind faith in National Competition Policy. The Bill provides an outcome justified by the public benefit test, that is, in the best interests of the Queensland dairy industry, dairy farmers, their families, dependent Queensland rural communities and the community overall. I commend the Bill to the House.
