to all farmers who were in the industry on September 28, 1999;

- the Dairy Exit Program which provides up to $45,000 tax free (subject to an asset test) to farmers exiting the industry as an alternative to the Dairy Structural Adjustment Program (intended for farmers who believe that this will provide better compensation for their decision to exit the industry); and
- the Dairy Regional Assistance Program which provides funds for diversification to communities previously reliant upon the dairy industry.

The most significant of these programmes is the Dairy Structural Adjustment Program which provides the industry with approximately $1.6 billion over 8 years. The level of assistance provided to each farmer is determined on the basis of 1998-99 milk sales, with provisions to use longer term data if 1998-99 was an unusually poor year. Farmers will receive total assistance (paid in quarterly instalments over 8 years) equal to 46.23 cents for each litre of Market Milk sold in 1998-99 and 8.96 c/L of Manufacturing Milk. These payments are available whether or not farmers remain in the industry and in

Table 7.3
Distribution of The Proposed Restructure Package

State	Market Milk ($ million)	Manufacturing Milk ($ million)	Total ($ million)[1]	% of Total Assistance	% of Total Milk Production	Average Per Farm ($)
VIC	203.4	515.9	719.3	47.6	62.9	87,556
NSW	258.6	61.6	320.1	21.2	12.6	156,002
QLD	192.6	37.2	229.9	15.2	8.4	132,720
SA	52.9	44.5	97.4	6.4	6.2	119,413
WA	73.1	20.2	93.3	6.2	3.9	208,365
TAS	0.0	52.4	52.4	3.5	5.9	70,814
Total	**780.6**	**731.9**	**1,512.4**			**108,007**

Note: These calculations slightly understate the total assistance to be provided, as they do not include additional payments for those farms which experience unusually bad production in 1998-99.
Source: Dairy Adjustment Authority and ABARE (200b), author's calculations SACES.

There were several assertions in this analysis that bear closer consideration. First, Norco were essentially assuming that there is no price competition in the retail market (i.e. between the major supermarket chains). If there is price based competition in milk retailing then a reduction in wholesale price should lead to at least some reduction in retail prices, as the various retailers (Coles, Woolworths etc.) would attempt to increase their market shares at the expense of their rivals. Secondly, Norco appears to have assumed that in price negotiations the milk processors have enormous protected market power as it is claimed that they, rather than the supermarket chains, would experience a very large rise in margins.

7.4 What has Been the Actual Experience of Deregulation?

It is now coming up to five months since deregulation. Market adjustments to the new environment are unlikely to be complete, and in fact anecdotal evidence suggests that major impacts on consumer prices really only began to flow through in September as renegotiated supply contracts came into force. However, some preliminary data has emerged as to the impact of deregulation on milk prices. Recent media reports (and media releases by National Foods and Woolworths) suggest that the retail price of a one litre carton of Woolworths branded milk has fallen by up to 27c/L (with the greatest falls in Victoria, for an approximate per carton price post deregulation of $1.19), and it could be expected that similar proportionate falls were experienced by other brands of milk. This indicates that consumers have unambiguously gained from deregulation.

Turning to farmgate prices, it is unclear exactly how much premium remains for market milk, as deregulation has meant that much of the price negotiation has now become commercially sensitive. A report in the *Australian Financial Review* (Wednesday, 25 October, p. 22) suggested prices paid to farmers in Queensland for Market Milk had fallen from 56 to 35 c/L.

These price estimates suggest that the downward impact on Market Milk prices is greater than the lower bound estimates by dairy organisations but smaller than that predicted by ABARE. This suggests that the impact on many farmers who are reliant on Market Milk, particularly those in the traditionally highly protected markets of NSW and

Queensland, could well be severe, although there will be a significant offsetting effect from the assistance package. It is worth noting that the compensation provided is significantly more generous than that which is generally provided to businesses operating in industries undergoing structural change. The current low Australian dollar will also provide some relief for dairy farmers, as ABARE based their estimates of Manufacturing Milk prices on exchange rates remaining just above US 60c to the Australian dollar. There was evidence of this offsetting effect in the AFR article where the President of the United Dairy Farmers of Victoria was quoted as saying that Manufacturing Milk prices were up to 4c/L higher than last year.

Using these price estimates it is possible to estimate the impact of deregulation on an "average" South Australian farm using ABARE Farm Surveys (2000) data.[7] On average a South Australian dairy farm produces 140,000L of Market Milk and 609,000L of Manufacturing Milk per year. Assuming that Market Milk prices fall 15c/L (from 50c to 35c) then the effect on an "average" South Australian dairy farm is a fall in its cash income of approximately $21,000.

In fact the adjustment package offers significant compensation for these negative impacts. SACES calculations suggest that an average South Australian dairy farm will receive $15,000 per annum over 8 years. However, the package is paid whether or not the farmer remains in the industry. This is a deliberate design feature intended to facilitate exit and rationalisation of the industry.

Fortuitously, one factor which may come to the assistance of South Australian dairy farmers, and significantly ease the adjustment process, is the current good prices for Manufacturing Milk due to improved world prices and the low Australian dollar. Assuming that the estimate from the United Dairy Farmers of Victoria is accurate, then prices being received for Manufacturing Milk are 4 c/L above last years level. If this is maintained then given an average South Australian dairy farmer produces 609,000 L of Manufacturing Milk p.a. this would improve cashflow by approximately $24,000. This is a significant improvement, and has the potential to mitigate significantly the impact of deregulation for most South Australian dairy farmers. The fortunate timing of this improvement in world prices, if it is maintained, will ease the transition to deregulation for most farmers as average cash incomes would actually rise from last year. Of course if Manufacturing Milk prices were to fall back to their 1999-00 levels, then this source of support would vanish.

[7] It should be noted that as this data is a statewide industry average it is not necessarily reflective of the situation of any individual farmer.