From Government Regulation to the Open Market:

A Study on the Effects of Regulation Change in the Dairy Industry in Australia, Ireland, and Canada

Christine Zwart and John F Devlin
School of Environmental Design and Rural Development
University of Guelph
jdevlin@uoguelph.ca

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The Context

- CETA and TPP suggest pressure for liberalization and deregulation of Canadian dairy will increase.
- How might deregulation of supply management in Canada affect the dairy industry?
- How has deregulation and trade liberalization affected the dairy industry in Australia?
- How has liberalization under the CAP affected the dairy industry in Ireland?

- What lessons do the Australian and Irish cases raise for Canadian dairy producers?

Comparison of the dairy sectors: 2014-2015

	Australia[a]	Ireland[b]	Canada[c]
Average Herd Size	284 cows	60 cows	77 cows
Average Farm Production	9,731 million litres	300,000 litres	630,537 litres
Approx. Yield per Cow	5,730 litres	5,000 litres	7,800 litres
Number of Farms	1,740	17,000	12,234[d]
National Dairy Herd	1.74 million cows	1.14 million cows	987,000 cows
National Milk Production	9.7 billion litres	5.4 billion litres	7.9 billion litres

[a] *Source: Dairy Australia, 2016*
[b] *Source: FIA, 2014*
[c] *Source: Canadian*
[d] *Source: EcoResou*

Population (Size of domestic market for milk)		
Australia[1]	Ireland[2]	Canada
24,239,700	4,757,976	36,328,500

Sources: Wikipedia

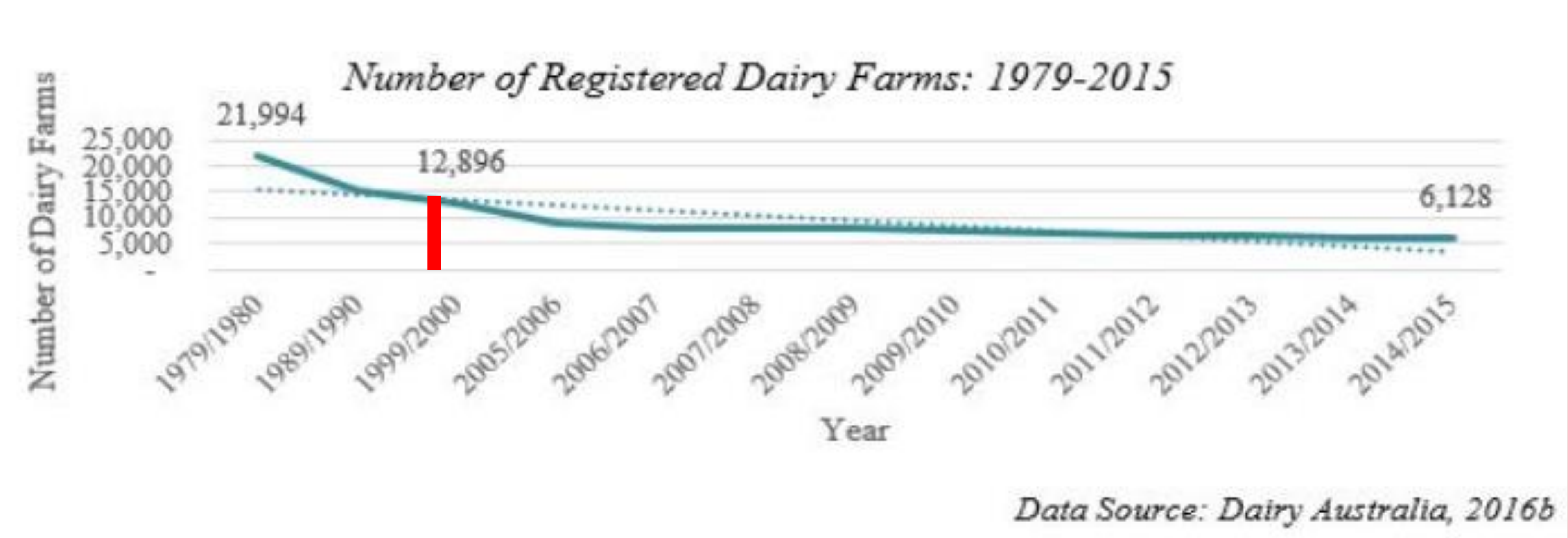
Comparison of the dairy sectors: 2014-2015

Farmgate Milk Price 2015 ($US)		
Australia[1]	Ireland[2]	Canada[3]
0.32	0.40	0.97

Sources:
1. Dairy Australia 2016
2. White, 2015
3. Dairy Farmers of Canada 2015

The Australian Experience after 2000

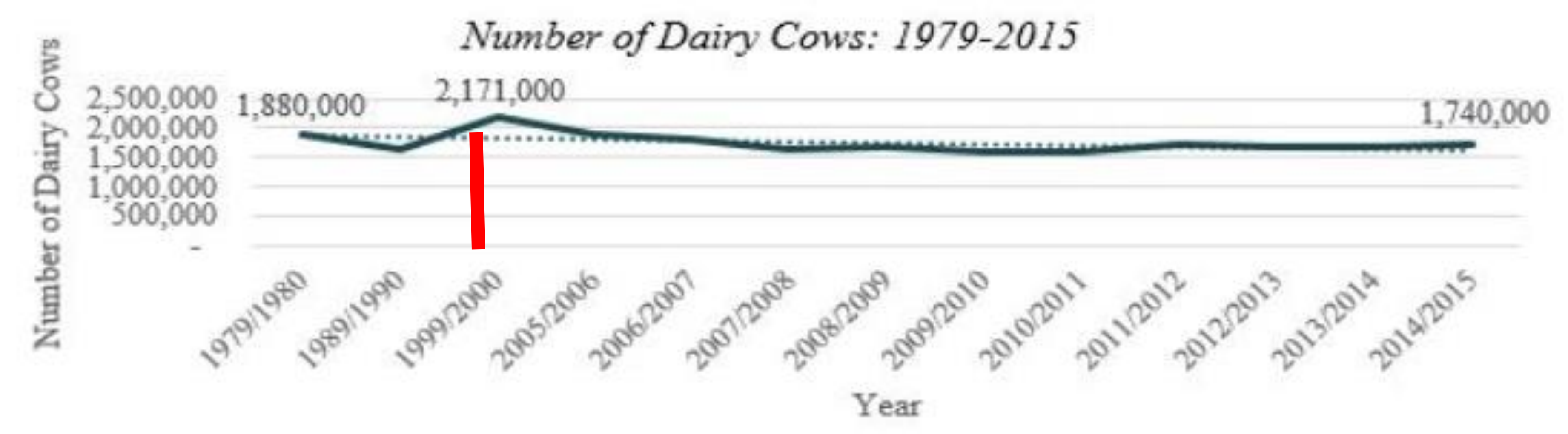
- Reduction in the number of dairy farms.
  - Dairy farms
    - 2000 = 12,896
    - 2015 = 6,128 A decline of 52.5 % (Dairy Australia, 2016b).



The Australian Experience

- Reduction in the number of dairy cows.
  - 1999/2000 = 2,171,000
  - 2014/2015 = 1,740,000

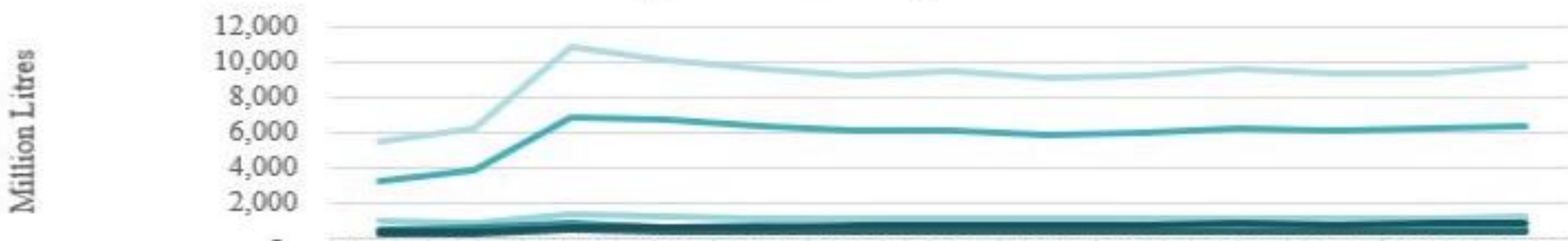
    (Dairy Australia, 2016b).
  - A decline of 19.8 %



The Australian Experience

Milk production declined (10.3%) after 2000 but stabilized

Australian Milk Production by State
(Million Liters)



	1979/ 1980	1989/ 1990	1999/ 2000	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	20132 0/14	2014/ 2015
New South Wales	907	879	1,395	1,197	1,104	1,048	1,064	1,099	1,087	1,135	1,136	1,104	1,159
Victoria	3,151	3,787	6,870	6,651	6,297	6,102	6,135	5,813	5,936	6,241	6,071	6,166	6,390
Queensland	508	629	848	597	537	486	513	530	487	487	460	437	411
South Australia	329	356	713	646	655	606	628	605	572	570	536	516	516
Westren Australia	222	267	412	377	349	319	340	359	372	349	349	340	364
Tasmania	315	344	609	622	641	661	709	677	726	792	765	810	891
Total: Australia	5,432	6,26	10,847	0,089	9,583	9,223	9,388	9,084	9,180	9,574	9,317	9,37	9,731

Data Source: Dairy Australia, 2016

The Australian Experience

- The average decline in farmgate prices after deregulation for fluid milk was approximately 19 Australian cents per litre lower than it had been in the regulated economy (NCC, 2004).
- We do not yet have the historical series since 2000
- Here are the milk prices for the last 7 available years
- Prices have been unstable

Australian Farmgate Milk Prices : Cents/Litre							
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
$Aus	42.4	37.3	43.2	42.0	40.2	51.2	48.5
$USA	34.0	31.7	46.3	43.0	36.8	48.2	37.3

Source: http://www.dairyaustralia.com.au/Markets-and-statistics/Prices/Farmgate-Prices.aspx
https://www.oanda.com/currency/converter/

The Australian Experience: Dairy Exports

Volume decline (35.1%) but $ value increase

Data Source: FAO Statistics, 2016

The Australian Experience after 2000

- Decline in number of farms (52.5 %)
- Decline in number of cows (19.8 %)
- Decline in volume of milk production (10.3%)
- Decline in volume of exports (35.1%)
- Increase in $ value of exports (constant or current?)

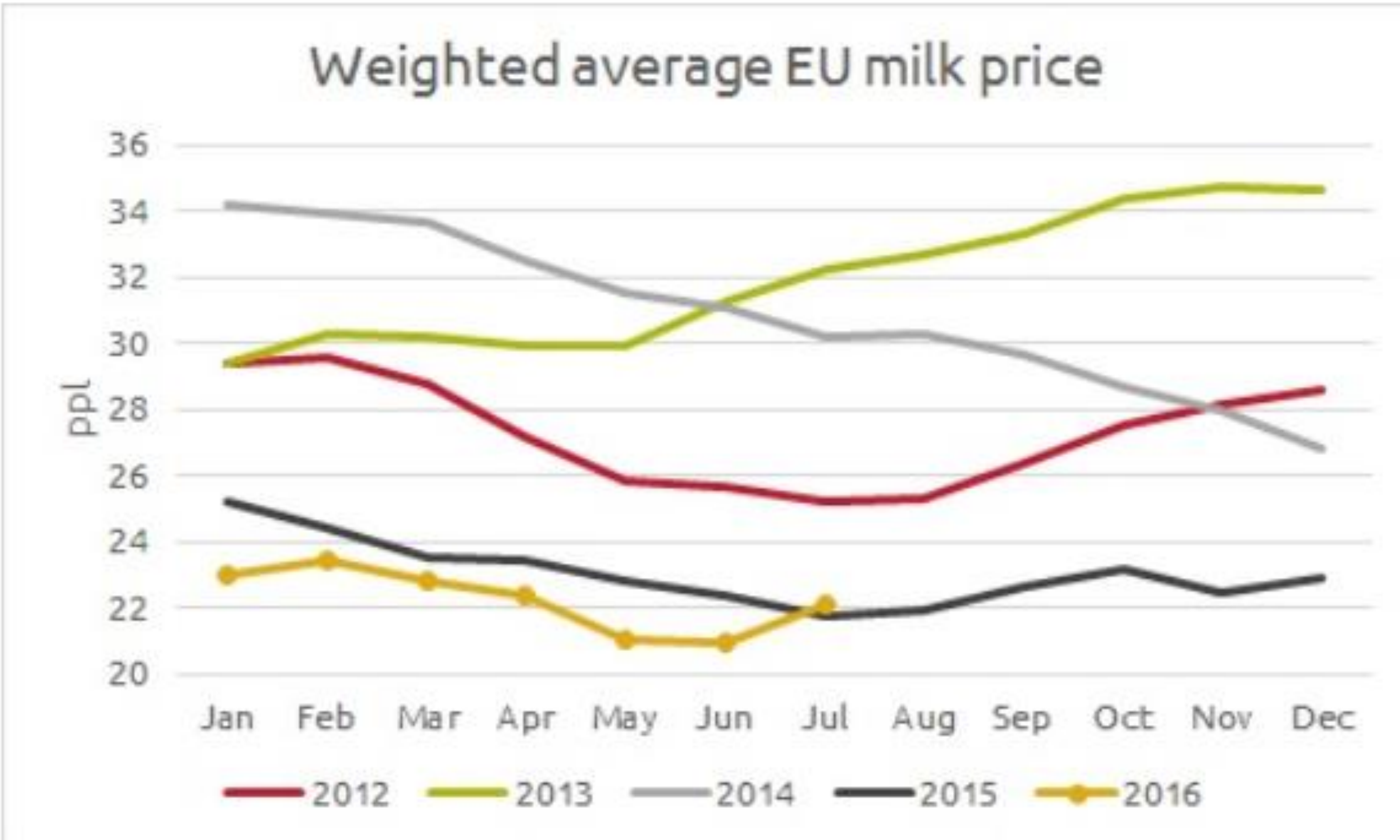
The Irish experience is just beginning

- The EU implemented a milk quota system in 1984 to prevent milk surpluses (European Commission, 2015a; Giles, 2015).
- Dairy quotas removed in 2014 across EU
- In Ireland, the removal of dairy quotas was met with enthusiasm from much of the dairy community as dairy was far and above the most profitable agricultural sector in Ireland with an average farm income of $70,613 (USD) in 2013, whereas the national farm income averaged out at a mere $28,513 (USD) in the same year (Hanrahan et al., 2014).

The Irish Experience

- Many farmers took out loans in anticipation of the CAP removal in order to expand their operations. The average dairy farm in Ireland has borrowed around $69,500, and the total agricultural bank loans in the country are estimated to be around $3.86 billion (USD) in March of 2015 (White, 2015).
- BUT
- Since April 2015 farmers have been disappointed with significantly lower milk prices than in previous years, with prices down from $0.40 (USD) a litre in 2014 (White, 2015) to $0.25 (USD) a litre in 2016 (AHDB, 2016).

The general EU Experience is indicative



https://dairy.ahdb.org.uk/market-information/milk-prices-contracts/farmgate-prices/eu-farmgate-milk-prices/#.V_46JcmIdhw

THE IRISH TIMES

Crashing milk prices wipe €800m off value of Irish dairy sector

Near 40 per cent decline in prices has also reduced annual incomes by up to €35,000

Wed, Feb 17, 2016, 01:00

More than €800 million has been wiped off the value of Ireland's dairy sector due to collapsing milk prices over the past two years.

The Irish Creamery Milk Suppliers Association (ICMSA) says the near 40 per cent fall in prices since 2014 has also reduced annual incomes by up to €35,000. It bases its calculation on figures from the Central Statistics Office.

Futures trading suggests there will be another drop in prices at this week's Global Dairy Trade auction, which sets the main international reference price, with key wholemilk prices expected to be down by as much as 10 per cent.

A glut in production, a slowdown in Chinese demand and Russia's trade embargo have combined to create the worst dairy market slump in a decade.

Source: http://www.irishtimes.com/business/agribusiness-and-food/crashing-milk-prices-wipe-800m-off-value-of-irish-dairy-sector-1.2537058

What can be expected for Irish dairy?

- Tracing the Australian pattern?
  - Fewer diary farms
  - Larger dairy farms
  - Perhaps increases in exports
- BUT
  - Instability in export volumes
  - Instability in global prices
  - Increasing importance of other forms of agricultural income support,
    - Direct payments for environmental services

Now thinking about Canada

Farmgate Milk Price 2015 ($US)		
Australia[1]	Ireland[2]	Canada[3]
0.32	0.40	0.97

Sources:
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What would deregulation bring for Canadian dairy?

- Probably a much deeper adjustment than in Australia or Ireland
  - Recognizing Canada's production disadvantages = winter, shelter, feed
- Sharp decline in milk prices (0.97 -> 0.30)
- Unstable prices
- Probably high imports of cheaper milk from USA, New Zealand and Ireland
- Low to no possibility for increased exports
- Substantial decline in the number of dairy farms
- Survival of some much larger dairy farms
- Substantial decline of the dairy industry

Thank You!

References

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