THE MARKETING OF DAIRY PRODUCE IN AUSTRALIA.

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1. INTRODUCTION.

The history of the marketing of Australian dairy produce presents a very varied picture of the experiments and expedients adopted by Australia's third most important primary industry in the field of marketing. Many controversial and contemporary issues are involved, such as home-consumption prices, subsidy payments to producers, constitutional reform to allow for controlled marketing and stabilization schemes for primary industry. The latter subject is of peculiar importance to the Australian economy, which is so heavily dependent on primary production, and the dairying industry has taken more measures towards stabilization than any other major primary industry in the Commonwealth.

This article attempts to trace, in six salient phases, the marketing problems which faced the industry, the measures adopted to meet those problems, and the general results of those measures. There are two subjects which could not be satisfactorily treated in this general framework, and these will be dealt with individually in a later issue. They will appear as:—

9. The Margarine Problem in Butter Marketing.

10. The Marketing of Milk in Australia.

2. EARLY DAIRYING IN NEW SOUTH WALES AND THE GROWTH OF THE CO-OPERATIVES.

(a) The Pre-Factory Period.

The beef and dairy cattle industries of Australia had their beginnings in the cargo of the First Fleet, which included four cows and two bulls. Twelve years after the first landing, there were over one thousand head of cattle around Sydney; by 1821, breeding and importation had raised this figure to over one hundred thousand, and between 1840 and 1850 the million mark was reached. How these were split up between beef-producing and dairying cattle is not known, as there was no differentiation of types of cattle in the early stages of development.

It is probable that the Colony reached self-sufficiency in dairy products early in the 1820's, the population at the time being over 33,000. After 1830 there was a surplus, and thereafter there were periodic exports, although Australia continued to import at various times until well into the 20th century. In 1836 New South Wales sent a few hundredweights of heavily salted keg butter to England, and in 1844 there was despatched to San Francisco a cargo of butter and cheese produced in the Illawarra district.

It was in the Illawarra, a native name meaning Happy Valley, that dairying in Australia was first seriously attempted, and by 1834 the district was regularly sending keg butter to Sydney by sea. On the authority of Dr. Lang, fresh butter sold in Sydney in 1834 at 1s. 9d. per lb., and salt butter at 10½d. to 1s. 1d. per lb. Later on, following the discovery of gold in California and the establishment of an export trade to that country by the Hon. Alexander Berry of Coolangatta, prices soared to as high as 4s. per lb. on the Sydney market of the 'fifties. However, a slump followed, and twenty years later the summer price of butter in Sydney fell occasionally to as low as 4d. per lb.

Writing of the pre-factory period in New South Wales dairying, one historian has this to say:

"Up to the mid-eighties, practically all the butter in New South Wales was made in Illawarra. It was all made at the farm from cream obtained by allowing the milk to stand about twenty four hours in broad, flat dishes on shelves, arranged one above the other around the side and up the centre of the dairies. In most cases, these dairies were scrupulously clean. Many were floored with brick, which was kept spotless. In very cold weather some dairymen maintained an even temperature by means of heating pipes from stoves provided for the purpose, or small charcoal fires. In summer, the dairies were kept as cool as was then possible by means of wells and double roofs. The

dairyman who was not particular about this cleanliness lost in the price of his butter, as he also lost if he allowed such weeds to grow on the farm as would injure the flavour of the butter. On bigger farms butter was made daily, each churning filling a keg, but on smaller farms only about three churnings were made in the week and it took these three churnings to fill one keg, sometimes with three layers of butter, sometimes mixed together.

"In large dairies great box churns, turned by horsepower, were used, the horses being put into a tread mill. In smaller dairies it was done in a barrel churn or a stamp churn in the cool of the mornings in a room or a verandah near the dairy. Though the dairies were generally well kept, the milking yards left much to be desired"(1).

When one understands how primitive and arduous were the conditions of production, it becomes obvious that the later development of co-operative creameries was to a large extent a protest against these conditions.

Marketing procedure was equally difficult. The great bulk of the butter produced was sent to Sydney in kegs (50 lb. to 90 lb.) which were returned to the farmer to be used again and again, after cleaning. Quality often suffered through this practice. Butter was shipped once or twice a week from Wollongong, Kiama, Shellharbour and Gerringong—the four butter ports. As wharf facilities and steamers were added, shipping facilities improved, but the weather remained a serious threat to marketing, and it is recorded that in March, 1865, owing to rough weather, there was an accumulation of 600 kegs of butter on Kiama wharf(2). Cold storage had not yet developed—in fact, since space in the ship's hold was very limited a considerable quantity of butter was stowed on deck at the mercy of the sun.

"Such a means of transport, the repeated use of the same kegs, the exposure of these kegs to the great heat of summer, and the absence of any real attempt to keep the butter cool, meant that in summer time the butter arrived in Sydney in a very soft, almost oily state, and was sometimes sold to pastrycooks or not sold at all, so the dairy farmer often got nothing for his butter after paying for freight"(3).

An historian of the time, Mr. James P. Dowling, writing of pre-co-operative days, has recorded the instability of the local market:

"Under the old rule, butter never rose or fell at a less rate than 28/- per cwt. The dairy farmer who shipped his produce, say, on Monday, when the Sydney price was 1/- per lb., sold on Wednesday when the price was 6d. per lb.; or possibly he met a rising market. It was hinted that the middle-men sometimes benefited by the sudden jumps"(4).

These conditions, together with the fact that summer production far exceeded winter production, meant that the dairying industry faced a very difficult marketing problem. There were some interesting attempts to solve the marketing problem in the late 'sixties, when individual farmers and joint stock companies tried exporting the summer surplus to England (without refrigeration). In 1869 this was attempted by two Illawarra farmers, Mr. John Colley of Jamberoo, and Mr. W. Grey of Kiama, and their venture is described in a letter to Colley published in the Kiama "Independent" in February, 1870:(5)

"165 Pitt Street,
Sydney.

My dear Sir,

Your keg of butter, which I sent to Galle by the *Avoca* has been returned, and on opening I found it to be perfectly sound. It had gone through so severe a test that, as the purser of the *Avoca* says, 'It will go ten times round the world uninjured.' No doubt it is, as you are aware, highly salted—more so than I think at all necessary for butter to be shipped to London. However, now you may be certain that your butter will arrive in England in as good order as when it was shipped. Mr. Grey's, which I sent repacked in bladders, appears to have more flavour than yours. I am sure that butter only slightly salted can be sent to London in bladders or sheeps' paunches, the cost of which is very slight. I think, as Mr. Grey is sending by the "Underlay," which sails on the 21st, that it would be better to send yours with his. There were no expenses on your keg. Let me know your wishes.

Yours very truly,

Augustus Morris."

Companies were in due course formed, the capital being used to purchase butter at about 4½d. per lb., and ship it to England, the proceeds being divided. Many of these ventures showed a loss. The first of these companies was formed at Kiama in 1870—The "Anchor Brand" Co., and met with failure. Another company, the Central Illawarra, averaged less than 6d. per lb. on one shipment of 77 casks to England, and other consignments showed similar disappointing results. These consignments had not been labelled "Australian Butter," and when the practice of identifying the butter was initiated by another of these exporting companies—the Shellharbour Co.—better results were obtained, the price received being about 1s. per lb. in this instance.

(b) The Advent of Co-operation.

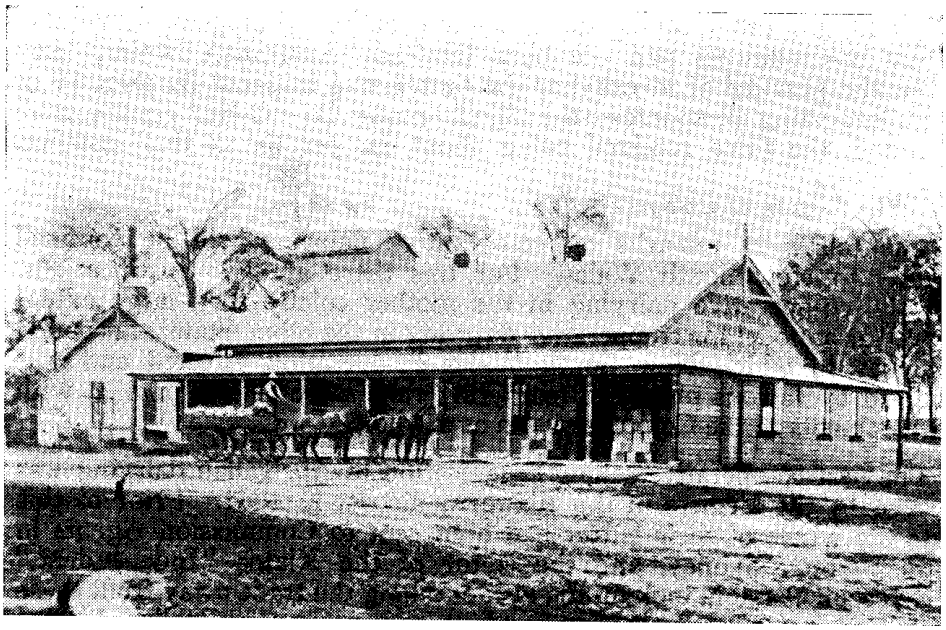
The following remarks on co-operative dairying will be confined mainly to New South Wales. For this there are two justifications. Firstly, co-operative dairying in the mother colony to a large extent served as a model for co-operative dairying in the other States. Secondly, the way in which New South Wales co-operation affected and was affected by various phases of marketing runs more or less parallel with developments in the Commonwealth as a whole.

The first co-operative selling organisation in Australian dairying was formed by the farmers of the Illawarra district in 1881. Prior to this date the whole of their butter had been sent to Commission Agents in Sussex-street, Sydney, and the editor of the Kiama "Independent," Mr. Joseph Weston, took up the task of taking the trade away from these agents and putting it in the hands of an agency controlled by the farmers themselves. Mr. Weston published articles in his newspaper explaining the principles of co-operation, and in association with two other enthusiasts, Messrs. D. L. Dymock and G. Porter, he visited various parts of the Illawarra, Shoalhaven, Ulladulla and Camden districts and urged the farmers to undertake co-operative marketing. As a result of these efforts, the South Coast and West Camden Co-operative Society was formed on 24th May, 1881. It made considerable

headway for a while, and its turnover rose to £200,000 in 1896 and £313,000 in 1898. However, in 1899-1900, owing, amongst other things, to the limited capital subscribed by producers and a heavy burden of indebtedness, it went into liquidation. The whole of the board of directors, with the exception of one, Mr. C. E. D. Meares, joined forces with McArthur and Co., softgoods warehouseman and shipping agents, of Sydney, to form what became known as the Farmers Co-operative Co.

Although the S.C. and W.C. Co-operative failed, it achieved a great deal. As Mr. Meares later put it: "The producers were repaid a hundredfold by the reforms effected in the marketing system and the better prices thus secured"(°).

A second important development of the 'eighties was the foundation of a butter factory in Sydney by the Fresh Food and Ice Co. in 1883, under its chairman of directors, Thomas Sutcliffe Mort. Mort's application of refrigeration to dairy produce, and the fact that, with David Lindsay Dymock, he imported the first Danish cream separator in 1883, made him one of the principal benefactors of the Australian dairying industry. The Fresh Food and Ice Co. was associated with still another of the inventions that revolutionised dairying—the Babcock milk and cream testing machine. Together with N. Herbert Throsby of the Berrima District Co-operative Co., Henry Pateson of the Fresh Food and Ice Co., pioneered in New South Wales the modern practice of testing milk and cream for butter fat content and the institution of payments to producers based on the results so obtained(7).



The Past: THE ORIGINAL FACTORY OF THE HUNTER VALLEY CO-OP. DAIRY CO. LTD. AT RAYMOND TERRACE IN 1903, THEN KNOWN AS THE RAYMOND TERRACE CO-OP. DAIRY & PRODUCE CO. LTD.

Since 1903, the factory has been moved to Hexham and by 1934 amalgamations with various other dairy companies in the Hunter Valley had taken place. The amalgamated companies included Bulahdelah, Paterson, Cessnock, Muswellbrook, Scone, Branxton and Denman. The turnover, which in the first year's trading was £39,185, has now grown to almost £2,250,000.

In the early 'eighties, Mr. David Dymock, a South Coast farmer, visited Denmark and saw how Danish farmers had advanced from individual separation to the formation of common separating stations. Denmark's first co-operative dairy society had been formed in 1882. On his return to Australia, Dymock's great organising power was directed towards assisting in the formation of the third important commercial venture in dairy products of the 'eighties, viz. "The Pioneer Co-operative Butter Factory." Established near Kiama, in the Illawarra district, in 1884, this was the first co-operative, farmer-owned and controlled dairy factory in Australia. The factory was equipped to receive milk, and at the outset possessed two milk separators. The produce was marketed through co-operative channels. A few months after the factory had opened, the South Coast and West Camden Co-operative Society reported:

"We have permitted your factory butter to work for itself, simply introducing it to some of our best customers and stating the circumstances and manner of production. The result has been a good demand and 1d. per lb. extra" ([8]).

After the success of the "Pioneer," more co-operatives began to spring up. Additional butter factories were started at Albion Park, Jamberoo, Bega and other centres of the Illawarra-Shoalhaven area. All the economic advantages were in favour of consolidating butter production. Factory butter commanded anything from a penny to twopence per lb. more than the hand-made article and costs were cheaper.

Co-operative manufacture spread very quickly until almost every district which could count on thirty suppliers had its communal manufacturing unit. The result was that there were almost as many different qualities of butter as there were factories, standards and practices varying considerably. Lack of uniformity was not so serious whilst most of the product was home-consumed, but as increasing exportation became necessary in the 'nineties, the quality position became damaging. Large buyers in London received shipments containing dozens of different qualities, and naturally this was reflected in prices. The remedy obviously lay in central and concentrated manufacture, and it was this consideration that was partly the cause of the decision which led to the establishment of a large central factory at Byron Bay by the "North Coast Co-operative Co.," (Norco) in 1895.

The method by which the co-operatives were formed and their financial arrangements were fairly standardised. At a meeting of district producers, each man would nominate what he proposed to subscribe. An initial payment would be made and a levy of about ½d. a gallon would then be imposed on the farmer's milk to pay for his shares. This money would provide plant and machinery and a certain amount of working capital. The Articles of Association would usually provide for dividends on the shares, but few were paid. It was considered that the supplier got the equivalent of a dividend in getting the full value of his milk, and non-supplying shareholders were not really catered for. Each month the total intake of milk by the factory would be ascertained and the co-operative's net income was calculated. The total net income would be divided by the number of gallons of intake and payment to producers was made on the basis of a flat rate per gallon of milk supplied.

Most of this development occurred on the South Coast, spreading later to the North. At these South Coast creameries, nothing but milk was received, so that the growing popularity of the small private separator around the turn of the century jeopardised their existence as separating stations. Another factor affecting them was the application of refrigeration to dairying, which tended to make them mere separating stations, the cream being forwarded to the Sydney stores of Foley Bros., the Fresh Food and Ice Co., and the South Coast and West Camden Co-operative Society. Finally, factory separation disappeared completely and delivery of cream was universal.*

The introduction of the small separator for farmers eliminated one of the main reasons for factory separation, viz., the extremely arduous and time-consuming nature of the process of farm separation, before technical innovations simplified it. With the new farm separators, the farmers saved considerable time and transport, since twice-a-day delivery of milk and haulage back to the farm of skim milk was no longer necessary. The swing away from delivery of milk was further aided by the widely-held opinion that feeding to stock the skim milk obtained from the factory's communal tank was responsible for the spread of tuberculosis amongst stock that occurred at this period. It is now of interest to note that the present trend is back towards the delivery of whole milk to the factory.

It was not until the co-operative factories had been well established in the Illawarra that Victoria gave any consideration to the idea. The Victorian Government of the 'eighties sent over a delegation under a Mr. Wilson to inspect these co-operative efforts in New South Wales and report on them, and on the return of the delegation, co-operation got under way in the Victorian dairying industry. To assist development and encourage export, the Victorian Government of the day initiated the system of paying a bonus on realisations in London, according to quality and prices. Similar schemes were put into operation in New Zealand, and, in later years, in Queensland and the other States (9).

By the early 'nineties, butter production had increased to such an extent that a state of over-production threatened. "The lowness of prices had had one beneficial effect," stated James P. Dowling in 1888, "it has rendered exportation almost compulsory. Australia has commenced to export butter regularly to England and the butter has commanded a good price. Dairying in Australia will not occupy a

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* M. A. O'Callaghan, Govt. Dairy Expert, in an article headed, "The Private Separator" in the *Agricultural Gazette* of September, 1899, wrote this opinion:—

> "This system of dairying is fast gaining ground here, especially in districts where separating stations are not numerous, and in new districts where dairying is not yet extensive enough to run separating stations. The system is not a good one from the exporter's point of view, as it interferes with the uniformity of the butter." O'Callaghan goes on to say in this article, that the only way to produce good butter by this method would be either to use refrigerating machinery on the farm or to forward the cream every day. The Dairy Expert then attacks the system of paying for all cream, tainted or untainted, under-ripe or over-ripe, as though it were of the same quality, *i.e.*, on the basis of butter-fat content only: "The whole system is on a wrong basis, and must sooner or later tumble to the ground, for the world does not long permit inferiority and mediocrity to stand on the same footing as superiority."

sound base until the export trade is firmly established" ([10]). Exportation was the only protection against a collapse of the local market, and at this time the policy of direct export by farmers' organisations had not yet evolved.

The South Coast and West Camden Co-operative Co. did, to some extent, indulge in direct export on behalf of the farmers, but was restricted in its activities because of a dangerous financial position, and an acute shortage of capital. Whenever the company did risk shipments, it was with unsatisfactory results, for, although any resulting profits would be claimed by the butter factories, any losses would quite often be repudiated. The company was being forced to bear the brunt of the uncertain market. Local values, governed by London values, had to be calculated six or seven weeks ahead, and, of course, quite a lot could happen to the London butter market between the shipping and the arrival of the butter. There had to be some provision against loss, and, to cover risks, the S.C. and W.C. Co-operative Co. set up a scheme involving contributions by factories through deductions from monthly accounts. This was, in effect, the first "stabilisation scheme" ([11]). A levy of a half-penny per lb. was collected "pro rata" upon output from all the butter factories of the State as an insurance fund against possible deficiency upon the surplus exported. For the first few years of the scheme, there was a margin in favour of export, and this was remitted to the factories, together with the half-penny levy. However, when London realisations from direct export fell below Sydney prices, considerable difficulty was found in collection, and claims were repudiated by some factories. The scheme broke down in 1898 and no renewal of stabilization of this type was made until the Paterson Scheme was established in January, 1926.

Despite the obvious advantages to be gained, farmers were content for some considerable time to leave co-operation at the point of production, and to hand over the marketing of the co-operatives' products to private firms. The failure of the farmers to finance and stand by a scheme for direct export assisted the advent of the speculator, later to be a source of considerable difficulties.

By accumulating supplies, Sydney speculators were able to establish a large gap between local and London prices which ensured a certain profit. Co-operative producers were forced from time to time to depart from their policy and sell to private firms and agents to get rid of surplus supplies, because there was no co-operative system to control the export business.

This was the state of affairs at the beginning of the 1893 export season, when a scheme was put forward by a Mr. Hugh Sinclair of Nowra, later a member of the Federal Parliament, which aimed at uniting all butter producers in one co-operative body to deal with export. This plan, however, came to nothing, partly as a result of the rise of the powerful New South Wales Creamery Co., which was a proprietary concern set up to ensure the private firms interested in it an adequate supply of butter. However, this firm, which operated on the North Coast, went into liquidation in 1904.

The *Agricultural Gazette* of October, 1896, reports the visit of some co-operative delegates from England who issued to the dairying industry some valuable advice on marketing for export. The delegates recommended that, "in future we have our butter on the London market all

the year round if we wished to extend our export market . . . This will involve storing on a large scale from season to season, but not necessarily at a loss, as home buyers will pay a good price to secure an article they are accustomed to." The delegates held the strongest views on the necessity of establishing standard grades and working up to the best, and they favoured the adoption of more than one grade.

A point strongly insisted on was regularity of shipments. "In past seasons we have been in the habit of shipping spasmodically say, 5 tons one week and 27 the next. This must cease and the market must be regulated so that buyers at the other end can anticipate from week to week what our probable shipments will be. This can only be done by a combination of interests here, and the cold storage arrangements now being made by the Board of Exports will probably be found the best way of balancing our shipments so as to prevent undue surpluses and the corresponding succeeding dearth of supplies."

In November, 1895, the New South Wales Government took a hand in export marketing when it appointed, by special patent, a Board for Exports, which was "A Board of Advice to assist the Government of the Colony of New South Wales in promoting the interests of the producers . . ." ([12]).

One of the main functions of the Board was the inspection of produce and the issue of certificates. Experts at the Export Depot inspected butter for export and allotted a certain number of points on the basis—

Flavour—50 points.
Texture—25 points.
Condition, colour, salting, packing, general appearance—25 points.

According to the *Gazette,* this system had "the immediate result of raising the quality of several factories' output" ([13]).

All butter scoring over 88 points received the "Approved" stamp of the Board for Exports, and butter submitted for inspection and scoring less than 60 points was stamped "Pastry." "The idea," said the *Gazette,* "is to make the Government stamp a desideratum and leave the lower qualities (*i.e.,* lower than 88 points) to compete in the open market on their merits, until such time as careful tuition and improvement of methods raises the quality to the necessary standard" ([14]). Thus the system was not specifically one of "grading." However, overseas buyers soon came to realise the advantages of the export certificates and in many cases stipulated examination by the Board's inspectors.

The Annual Report of the New South Wales Department of Agriculture for 1899-1900 stated that "the opposition of some firms to government inspection and handling is still very strong," but added that the Board for Exports was pinning its faith on buyers' pressure (*i.e.,* increasing inquiries from abroad for "certificated produce").

The Annual Report for the year 1897-8 revealed another of the Board's attempts to improve quality, viz., "The Government prizes, offered under the auspices of the Board for Exports at the annual Royal Agricultural Society's Show, have been continued, awards to the amount of £140 being made for exhibits of butter, poultry, wheat, barley, fruit, etc. The competition for these prizes was considerably better than in the preceding season, and the £50 prize offered for butter under export conditions has practically become the blue ribbon of the dairying industry."

Another extract from the *Agricultural Gazette* again touches on the quality of butter exports, an issue of considerable importance later:—

> "At the present time our export trade might be said to consist of salt butter in bulk, and the best of it sells, on the average, about one penny per lb. less than Danish butter. That is, it does not in England rank as highest or best-class salt butter" ([15]).

The export fund arrangements of the South Coast and West Camden Co-operative Society* broke down in 1898 when the Company's export business showed a considerable loss. Norco and several other co-operatives refused to have their share of the loss deducted as reclamation, and this state of affairs led to Norco deciding, in September, 1898, to withdraw from all export schemes and undertake export on its own account. Its export business was done through co-operative channels, but it took the whole financial responsibility, simply paying to the co-operative agencies its forwarding charges. Norco's method was to build up a substantial export reserve out of which to pay compensation for any loss on exports. The rapid progress made by the firm, revealed by the following figures, contributed considerably to the strength of co-operative control of marketing ([16])

TABLE I

Annual Turnover of the North Coast Co-operative Co. Ltd. (formed 1892).

	£
1896	37,341
1900	120,000
1905	340,000
1910	722,000
1914	912,000
1930	2,819,000
1948	3,095,000

(c) Sydney's Early Milk Supply.

Another venture of this period destined to play an important role in co-operative marketing, was the Dairy Farmers' Co-operative Milk Co. Ltd. Formed in 1900 by a few farmers around Albion Park and Dapto, on the South Coast, who aimed to control the distribution of their milk by their own co-operative effort, it developed into the largest milk distributing unit in Australia.

The first attempt to supply Illawarra milk to Sydney was made by Wollongong in 1856. Milk was sent to Sydney by steamer three times a week, leaving at 3 p.m. and arriving five hours later. No attempt was made at conditioning or refrigeration, and the experiment failed within a few months. No further attempt at the trade was made for another thirty years, when the Fresh Food and Ice Co. instituted such a supply, using steamers, with ice as a preservative. The position in 1900 was summarised in the Kiama *Independent* of 2nd January, 1900:—

> "There are four companies in Sydney 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 or five years, the complaints of the producers against them on various points, but especially on the middleman's costs and consequently small returns, have become chronic and apparently unendurable" ([17]).

* Which had in that year changed its name to "Farmers' Co-operative Co."

As a protest and a remedy, a great co-operative was formed. In its first year, the Dairy Farmers' Co-operative Federation Ltd. distributed 14,000 gallons of milk, but showed a loss of £254. However, the farmers decided to carry on, despite an acute shortage of capital, and by 1912 the organization was sufficiently healthy to declare a 6 per cent. dividend, which it has since maintained. The capital shortage was overcome by adopting a levy on a gallonage-supplied basis, but the levy system was discontinued in 1932 when direct payment to producers ceased, owing to the operations of the Milk Act. Since then, no fresh capital has been provided by dairymen, while new suppliers received the full benefit of the capital previously subscribed by shareholders. The amount of milk distributed by this co-operative now stands at approximately 40,000,000 gallons per annum ([18]).

This vast expansion has been facilitated by amalgamations. In 1929 amalgamation with the Camden Vale Milk Co. Ltd., and the Farmers and Dairymen's Milk Co. Ltd., was achieved. This was followed in 1930 by the acquisition of the Singleton and Waratah Milk Co. Ltd., and in 1934 of M. McNamara Ltd. Other smaller concerns have also been purchased. Since 1934, the Company's sales have increased at the enormous rate of over a 1,000,000 gallons a year. To-day the Company markets the produce of over 3,000 producers, most of them small farmers ([19]).

The part played by the Milk Board in the liquid milk market will be discussed elsewhere, but it is here sufficient to state that, acting as agents of the Board, co-operative organizations to-day handle 80 per cent. of Sydney's milk supply.

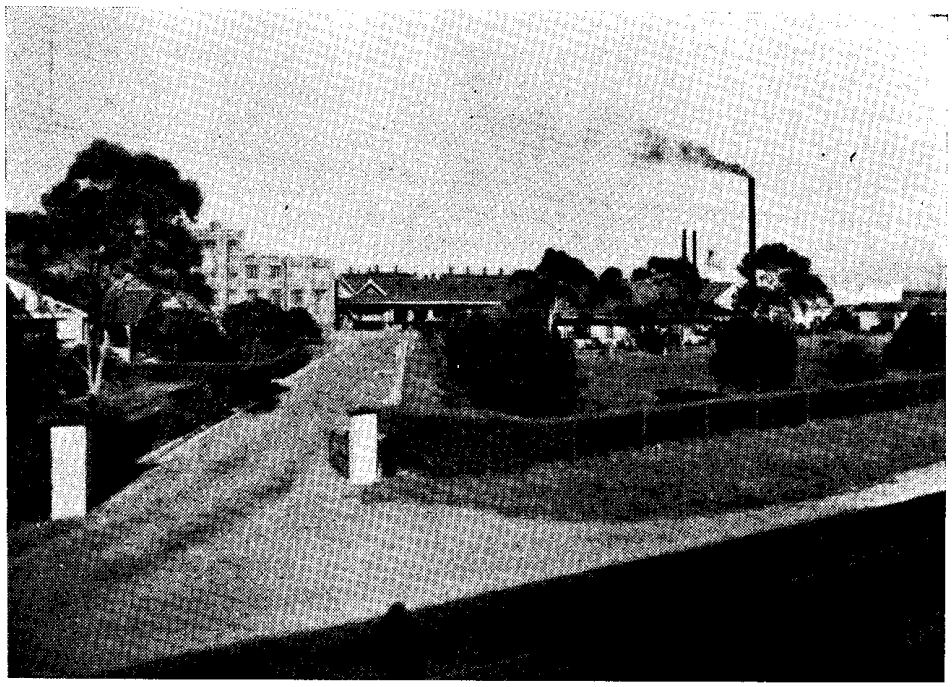
(d) The Coastal Farmers' Co-operative Society.

Mention has already been made of the break-up of the South Coast and West Camden Co-operative Co. in 1900, and the transfer of the directors to a new concern—the Farmers' Co-operative Society (known as the McMillan Co.). The managership of this new concern was offered to C. E. D. Meares, a former manager of the South Coast and West Camden Co-operative Co., who was to become known as the "Grand Old Man" of co-operation in Australia. After making an examination of the articles of the new company and the various "strings" attached to it by the private firm of McArthur and Co., Meares decided that the new body included too many proprietary elements and was not truly co-operative in spirit. Meares, the idealist, took on the superhuman task of forming a new co-operative for the marketing of dairy produce in opposition to the "sham co-operative."

It was a David and Goliath struggle. The McMillan Co., with a subscribed capital of £60,000, hardly regarded as serious competition Meares' Coastal Farmers' Co-operative Society (capital £250). Yet in 1908, after an eight years' struggle, the larger concern went into liquidation, and the Coastal Farmers' Co-op. Society had built its turnover up to £640,000. By 1910, turnover had reached £1 million, and by 1920 this was more than trebled. In 1925, when amalgamation with the Berrima Co-operative occurred, annual sales amounted to £3,500,000.

(e) Co-operative and Other Developments, 1900-1920.

Meares' Coastal Farmers' Co-operative Society did a great deal of the pioneering work in co-operative marketing and was closely associated with all of the important developments in this field. The £250 subscribed in 1900 was made up of £1 shares, bought mainly by South Coast farmers. Under the Articles of Association, only farmers and consignors could be shareholders. Meares' first step was to take up premises in Sussex-street, Sydney, a stronghold of the commission agents. Starting principally with the marketing of dairy produce, the C.F.S. quickly extended its operations to many other classes of farm produce.



The Present: THE MAIN FACTORY AND ADMINISTRATIVE BUILDINGS AT HEXHAM OF THE HUNTER VALLEY CO-OP. DAIRY CO. LTD.

This factory which is one of the largest of its kind has the latest plant for the treatment of milk for Sydney and Newcastle and for the manufacture of butter, cheese and milk products including full cream milk powder, skim milk powder, dried ice cream mix. The Company handles, at peak production, two million gallons of milk per month. Other activities include services for the dairymen such as lime spreading, feeds, seeds, etc. The annual turnover is almost £2,250,000.

Soon after the C.F.S. had become established, Meares set out to establish the producer's right to have a hand in fixing the price at which his product would be sold locally. As a first step, the C.F.S. called a meeting of butter factories to fix a local price for the 1901-2 season then commencing. The meeting decided that the local price should be 10d. per lb., with the balance of supplies to be exported. Proprietary and semi-proprietary bodies such as the Farmers' Co-operative Company undercut prices for a time, but the strengthening of the market overseas meant a victory for the C.F.S. and the Berrima District Co-operative Company, which together kept the price at 10d.

The principle propounded by Meares soon became established and a Committee of representatives from C.F.S., Norco and the Berrima District Co-operative Company was formed to fix prices quite independently of the proprietary interests. This was the system in operation when war broke out in 1914 and the Government took control of price-fixing.

On the 1st October, 1906, the Federal Parliament's "Commerce Act" came into force governing the conditions under which dairy produce (amongst other things) would be allowed to be shipped for export to other countries. Until this time, legislation to improve the quality of dairy produce had been handled solely by the States, and New South Wales, Victoria and Queensland had all passed Acts relating to the production of milk, butter and cheese.

As a result of the Commerce Act, the 1906-7 Report of the New South Wales Department of Agriculture was able to state that:

> "For the first time during the history of New South Wales dairying, we are enabled to form a reliable opinion on the quality of the butter exported . . . Table B shows that 20½ per cent. of the butter graded obtained from 94 to 100 points, while 66 per cent. of the total amount graded obtained from 86 to 93 points . . . There has no doubt been a wonderful improvement in the get-up and packing of our butters since the introduction of the Commerce Act."

Freights played a very interesting and important part in marketing while the London market price dominated the Australian market. This is well illustrated by a note in the Annual Report of the New South Wales Department of Agriculture for 1904-5, headed "Reduction in Export Freights":

> "The most noteworthy event of the year has been the reduction in the cost of carrying butter to London. Evidence given before the Royal Commission on Dairying in Melbourne, caused an agitation for lower freights and now we have steamers carrying butter for the very low figure of three-eighths of a penny per lb*. This means a big thing for the industry. It places our farmers in a much better position to fight the foreigner on the London market, and it means also an extra three-eighths of a penny per lb. on all butter sold in Sydney during the export season."

The position was that any factor tending to increase returns on the export market had a similar effect on the local market, the two markets being in this sense in competition for the producer's butter. If, due to lower freight rates, the export market yielded an extra three-eighths of a penny per lb., producers would not be willing to sell on the local market during the export season, unless it was equally profitable.

The next extension of co-operative activities was participation in the storage of winter butter. Previously the proprietary companies and their agents, some with their own cold storage, had been the first in the field to secure the profits from storing the late summer butter surplus for re-sale at high prices during the winter. This had been considered the speculators' own field, but in 1908 the co-operative companies began

* *A. A. Dunnicliff in his "Essence of Co-operative History" attributes much of the success of the movement to lower freights (the "Freight War" of the early 1900's) to the initiative of the Coastal Farmers' Co-operative Company.*

to encroach with the aim of securing these profits for the producers. There was the further objective that participation in storage activities would strengthen co-operative control over local prices. The co-operatives' storage system was taken over and financed by the Government during the war, but in 1922, with the release of dairy produce from price control and the abandonment of pools, the storage of butter on factory account reverted to co-operative control.

In July, 1909, there was a further step towards the cohesion of co-operative forces when Norco agreed to make the C.F.S. its sole agent in New South Wales for the marketing of butter and bacon. A certain amount of financial combination was negotiated concurrently, with Norco purchasing 2,000 £1 shares in C.F.S. and being granted in return a one-third representation on the Board of Directors. This concentration of sales was another step towards one definite policy of butter export and further strengthened the co-operatives' position in regulating prices.

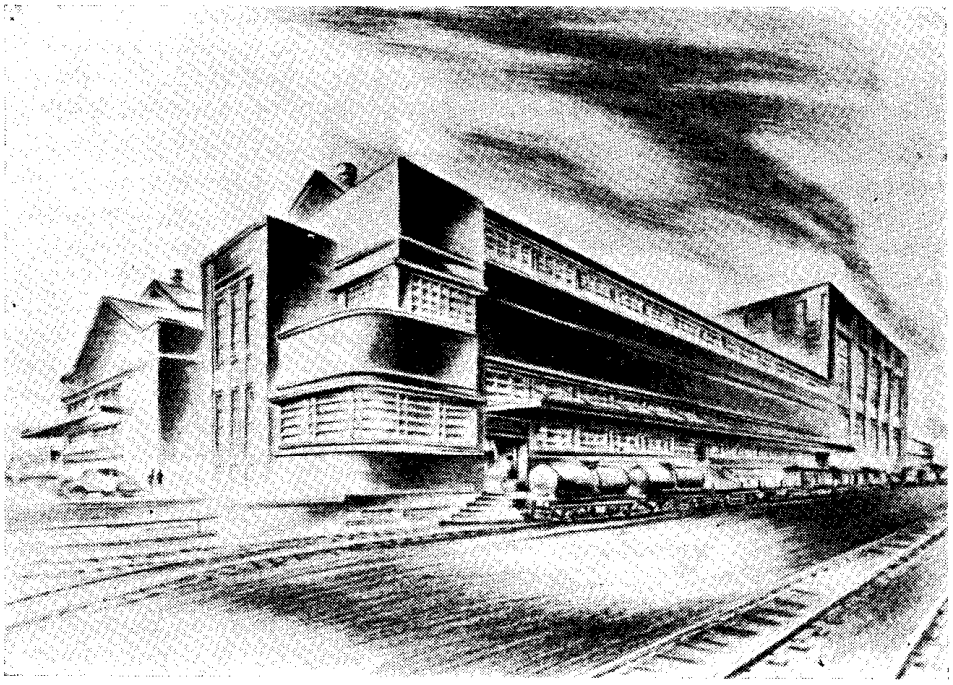
Dairying co-operatives took another important step in marketing in 1910 when a combine of butter-box manufacturers was formed under the title of "The New South Wales Box Company Limited," with the object of raising its prices to the factories. For years the price had been 1s. 4d. per box, but the new combine, in what Meares termed a "stand and deliver fashion," raised the price to 1s. 6d., with the threat that if each factory did not sign a three-year contract, the price would be raised to 1s. 11d. Meares, who "relished a fight," called a meeting of the factory boards with the aim of organizing a co-operative box company. In April, 1910, the Co-operative Box Company was established. Despite the efforts made by the proprietary combine to block New Zealand timber supplies, and despite an acute shortage of capital, the Company vindicated Meares' judgment by making profits while selling at the old price of 1s. 4d. per box. To-day it manufactures about 1½ million boxes annually ([20]).

In 1913 co-operative interests decided that something should be done about the disparity in quality, and therefore in export realisations, between Australian and New Zealand butter. The butter quality issue was receiving considerable attention at this time because of the concern being felt by dairying interests with regard to increasing margarine competition. As a result of a conference of interstate co-operative distributing companies held in that year, a committee was despatched to New Zealand to study that Dominion's methods. On its return, the committee reported that neutralisation and pasteurisation were the keys to a better and more uniform quality butter.

Pasteurisation at this time was by no means a novelty. The *Agricultural Gazette* of September, 1899, had reported that six factories had erected "capable pasteurising machines and circular cream coolers." However, the findings of the co-operative delegates in New Zealand lent an impetus to this development. During the war years, the practice of pasteurisation began to spread in New South Wales and quality began to improve, though little was done in other States. In 1921, under the New South Wales Dairy Industry Act, it became compulsory for every butter factory to instal pasteurising appliances. To some extent the effect of this development on butter quality may be seen from a comparison of the seasons 1914-15 and 1921-22. In the former season 15 per cent. of New South Wales butter was graded "choicest." The corresponding figure seven years later was 84.8 per cent.

The spectacular improvements in quality at this time can be largely ascribed to three developments—the extension of pasteurisation and the change-over from the "holding" to the "flash" method—improved grading of cream by qualified graders—and the rebuilding and re-equipment of many factories to comply with legislative requirements.*

During 1916 a movement started seriously amongst co-operative dairying interests, aiming at the elimination of divided consignments. ([21]) The principle had long been established in co-operative circles that no farmer should be allowed to divide his cream between co-operative and proprietary factories. The logical extension of this



The Future: ARTIST'S IMPRESSION OF BRANCH FACTORY BEING ERECTED AT MUSWELLBROOK FOR THE HUNTER VALLEY CO-OPERATIVE DAIRY COMPANY LIMITED.

The factory is being built on most modern lines with the latest equipment for the treatment of milk for Sydney and Newcastle and for the manufacture of milk products. It should be capable of handling the greatly increased production which is expected to result when the water conservation scheme is completed by the erection of the Glenbawn Dam near Scone. The milk drying section of the factory is already in operation.

principle, as far as co-operation was concerned, was that no co-operative factory should divide its consignments between co-operative and proprietary distributing channels. However, co-operative idealists were less successful in establishing the latter principle, and to-day

* *New South Wales legislative measures associated with quality improvements at this time were:—*

(1) *In 1915-16 the State Dairy Industry Act was made law and regulations under the Act were enforced.*

(2) *In 1921 orders were issued by which all dairy produce factories were to be brought to a prescribed minimum standard of construction and equipment under State law.*

(3) *In 1922 pasteurisation of cream by the "flash" method was made compulsory.*

considerable quantities of co-operatively manufactured butter are distributed through private agents, although this does not apply in New South Wales.

(f) Co-operative Development in Overseas Marketing.

The policy of direct export of dairy produce to London on a factory account, as opposed to spot sales to speculators on a c.i.f. or f.o.b. basis, was largely pioneered by the Coastal Farmers' Co-operative Society and Norco to avoid market manipulation. Some mention has been made of the difficulties involved in earlier efforts at direct export. Some of these were reduced by the step taken in 1908 of sending three co-operative representatives to London to handle the direct export of surplus butter on factory account. This facilitated arrangements considerably and reduced the co-operative's risk of loss on overseas transactions. The representatives examined the produce on arrival, supervised sales, obtained information on the quantities of butter arriving in London, watched the trend of the market and kept Australian dairying interests advised on the conditions likely to prevail in the future. Two years later, in 1910, the other co-operative distributing company in New South Wales, the Berrima District Co-operative Company, embraced the policy of direct export, which later became almost universal all over Australia for proprietary and co-operative houses alike.

The next step was the establishment of a co-operative selling floor in London. Since the early days of the C.F.S. when the idea had been universally considered impracticable, C.E.D. Meares had been working steadfastly towards that end with the aim of securing producers against excessive commissions of middlemen and fluctuations arising from the activities of speculators. To further this purpose, it was necessary to bring together co-operative distributing organizations in other States, and this Meares proceeded to do to some effect, for by 1914 a prospectus had been issued for the formation of an Australian-wide company—The Australian Floor Ltd.—whose primary object was, to quote the prospectus, "to allow farmers to market their own produce on co-operative and sound business lines" ([22]).

The business of the company was to be confined to the distribution of the produce consigned to the company for sale on a commission basis only. The articles prohibited the company from purchasing for re-sale, thus eliminating all risk of speculative business by the company. The onset of war and government control of marketing, however, necessitated a postponement of Meares' plans.

In May, 1918, a conference was called by the Westralian Farmers Ltd., in Melbourne, and as a result of discussions at that meeting, at which Meares re-introduced his 1914 prospectus, ten co-operative distributing companies in various States banded together to form the "Australian Producers' Wholesale Co-operative Federation Ltd." The share capital of the new organisation was contributed solely by the constituent co-operatives, whose total sales turnover of primary produce amounted to £18 million per annum. The Federation was formed in 1919 and commenced operations in London in 1920 with the setting up of a selling floor in Tooley-street.

In 1920 the Berrima Company joined up, and in 1926 the Federation was strengthened by the inclusion of the Murray River Wholesale Co-operative Ltd. (Adelaide). The majority of the Federation's directorate consisted of the managers of the member companies, and the organization was thus very strong in commercial experience.

At the outset it was considered by many that the Overseas Sales Floor would not survive amongst the agents of Tooley-street, but the long-dreamed-of "London Floor" proved a robust youngster, and confounded the critics by reaching an annual turnover of £9 million within eight years of its establishment.

Both New Zealand and South Africa had preceded Australia in establishing overseas co-operative marketing federations (although they were primarily for the purchasing of commodities). New Zealand had brought eleven associations and companies together in 1917 for joint marketing and purchasing. South African producers, too, had realised that by uniting on the London market they could effect large savings in purchasing for their member companies and could make their weight felt much more effectively in selling their produce, and they had established their federation a year before Australia's entry into this field.

By 1921 these co-operative federations saw the need for a closer union, and in March of that year representatives of the Australian, New Zealand and South African federations met in Melbourne and formed a new federation called the Overseas Farmers' Co-operative Federation, with a joint Australian, New Zealand and South African selling floor. A feature of the new federation was that each of the three constituent bodies retained its separate financial identity and responsibility and retained its name following the general title. It was also agreed that as far as possible, produce shipped from each country should retain its own identity.

This consolidation of co-operative distributing interests made phenomenal progress in London, as is illustrated by the following table showing annual turnover for all produce.

TABLE 2.

Annual Turnover of the Overseas Farmers' Co-operative Federations, 1921-29.

	£
1921— 9 months to June	307,419
1922—12 months to June	2,663,840
1923— 9 months to March	1,538,940
1924—12 months to March	3,639,428
1925—12 months to March	4,233,293
1926—12 months to March	5,955,280
1927—12 months to March	4,691,270
1928—12 months to March	8,230,913
1929—12 months to March	9,072,496

(Source: "Fifty Years of Co-operation," p. 66, by C. E. D. Meares.)

The distribution of Australian produce represented over 80 per cent. of the above figures, the balance embracing consignments of varied produce from South Africa and New Zealand.

The Overseas Farmers' Co-operative Federation at first handled the selling of Australian butter, whilst Amalgamated Dairies Ltd., the New Zealand Co-operative venture in London, was selling New Zealand butter and competing with the Overseas Farmers'. In 1929 an important merger occurred when this New Zealand body joined forces with the Overseas Farmers'. This was arranged by the formation of Empire Dairies Ltd., to sell New Zealand butter and to take over the butter business of the Overseas Farmers' Co-operative Federations. Although sales of Empire Dairies Ltd. were confined to dairy produce only, the turnover for the third year of its existence was over £4 million sterling.

Since 1929 these overseas marketing organisations have continued to expand, and the annual turnover of the Overseas Farmers' now stands at approximately £43 million sterling per annum. Following the outbreak of war in 1939, the distribution of dairy produce in Great Britain was controlled by the Ministry of Food through one composite distributing channel, "Bacal," and Empire Dairies operated as an agent of that body.

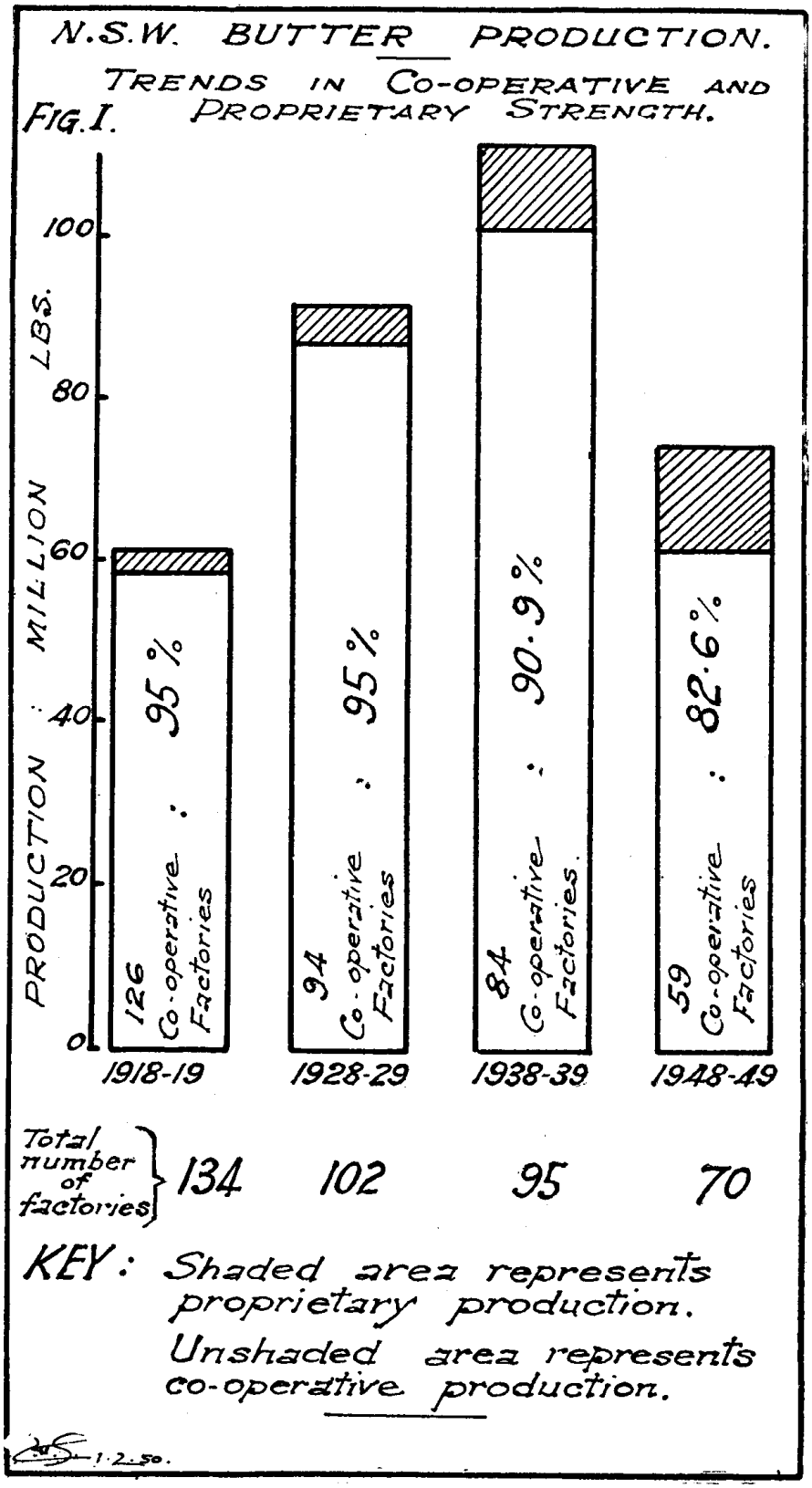
The developments since 1920 discussed above may be described as a process of cohesion of co-operative forces in overseas marketing and a concentration of export sales under one export policy. However, on the local market there was a certain degree of disintegration on the selling front of co-operative dairying interests when, in 1923-24, the powerful Norco organisation closed its association with the Coastal Farmers and opened its own floor in Sussex-street, Sydney. There was some compensation for this split, however, when in 1925, after many years of fruitless negotiations, the Berrima District Co-operative Co. agreed to amalgamate with the Coastal Farmers'. From this consolidation of co-operative marketing forces emerged the Producers' Distributive Co-operative Society—the P.D.S.—which is to-day the largest distributor of dairy produce in the Southern Hemisphere.

(g) The Present Position of Co-operative Marketing in N.S.W.

Factory returns for New South Wales for 1948-49 reveal that fifty-nine co-operative factories produced 82.6 per cent. of the State's output during that period. The following graph shows the proportion of butter manufactured by co-operative and proprietary factories in selected years since 1918-19. It can be seen from this graph that the trend has been towards a greater proportion of output being derived from proprietary manufacture. It is also interesting to note that there has been a trend towards fewer and larger factories.

It is estimated that all but 1 or 2 per cent. of co-operatively-produced butter is marketed through co-operative channels in New South Wales, which means that over 80 per cent. of the State's butter is subject to co-operative marketing. This butter is handled by two huge agencies, Norco and P.D.S.

The turnover of the North Coast Co-operative Company in 1947-48 was £3,094,603 and output of butter was 24,146,369 lb. Since Norco commenced manufacture in 1895 it has distributed £56,000,000 to suppliers of milk as well as £5,000,000 from the sale of pigs and cream. Recently Norco has given notice of its intention to increase its share capital by £200,000. Capital accumulation in the past has been largely


N.S.W. BUTTER PRODUCTION.
TRENDS IN CO-OPERATIVE AND PROPRIETARY STRENGTH.
FIG. I.
PRODUCTION : MILLION LBS.
100
80
60
40
20
0
126 Co-operative Factories : 95 %
94 Co-operative Factories : 95 %
84 Co-operative Factories : 90·9 %
59 Co-operative Factories : 82·6 %
1918-19
1928-29
1938-39
1948-49
Total number of factories
134
102
95
70
KEY: Shaded area represents proprietary production.
Unshaded area represents co-operative production.
1.2.50.

by shares taken up by new suppliers. Under co-operative laws 90 per cent. of shareholders must be suppliers of produce to the co-operative concerned.

In the year ended September, 1948, the P.D.S. handled 31,577,000 lb. of New South Wales butter and the the Brisbane branch handled another 24,211,656 lb. In addition, the Society has been marketing approximately 2,240,000 lb. of Victorian butter each year. The turnover of P.D.S. in the year ended September, 1949, was approximately £14,800,000. The selling commission of P.D.S. is a nominal 3 per cent., with a substantial rebate at the conclusion of the year's operations. In 1900, when the P.D.S. (then the C.F.S.), was established, the commission charge on factory butter was 4 per cent. (with cash bonuses). As turnover increased and marketing facilities were improved, this was reduced to 3½ per cent. (1915) and then to 3 per cent. (1919), bonuses still being paid.

The basic statute affecting co-operation in New South Wales is the Co-operation Act, 1923-36, which provides for the formation and registration of societies of various types. Co-operative dairy companies are registered under the section classed as Rural Societies. This type is intended in the main as an organization of producers, but it also has the power to act as a consumer co-operative, and many of the dairy co-operatives have ventured into this field.

(h) Co-operation in Queensland Dairying.

Although co-operative marketing of dairy produce is probably stronger in New South Wales than in any other State, Queensland holds the distinction of being the stronghold of co-operative manufacture. Almost 100 per cent. of Queensland's butter is manufactured in co-operative dairy factories. A distinctive feature of co-operative dairying in Queensland is the ownership of groups of factories by single associations. In 1936 eight associations together owned thirty-five butter factories, supplying roughly three-quarters of the State's butter output.

In recent years the Queensland butter-manufacturing co-operatives have taken a more prominent part in the liquid milk market, and several have obtained franchise for the pasteurising and sale of milk in regional cities. The manufacture and marketing of processed milk products is not widely indulged in by the co-operatives. Marketing of butter in the metropolitan areas is handled by the Queensland Butter Board, and the Board appoints agents (in many cases, the co-operative manufacturers), to pat and distribute butter in rural areas. The Queensland dairy co-operatives handle their own cold storage through the Cold Storage Co-operative Federation on the Brisbane River.

There is also a federation registered under the Primary Producers' Co-operative Association Acts, 1923-1934, concerned with the local marketing of butter manufactured by its component members. This is the North Queensland Co-operative Dairy Produce Federation Ltd., which operates on the Atherton Tableland.

(i) The Relation between Co-operation and Controlled Marketing.

Queensland legislation for co-operatives provides for what may be termed compulsory, as well as for voluntary co-operation. The Acts concerning dairying in this regard are the "Primary Producers' Organization and Marketing Acts, 1926-1946." This legislation provides

for the formation of a Board to handle the marketing of the whole of a commodity following upon a petition from producers. A 60 per cent. majority vote of producers in favour of the establishment of a Board is required where there is opposition to the proposal. It is under this legislation that the Queensland Butter and Cheese Boards were established. Similar legislation has been passed in New South Wales ("The Marketing of Primary Products Act, 1927-41"), but has not been applied to dairying.*

The principle of compulsory co-operation instituted in Queensland represented a revolutionary departure from orthodox agricultural co-operation, but it was introduced by the Queensland Government as a means of making selling co-operatives in agricultural products operate effectively. One purpose the legislation served is indicated by the following quotation:—

> "Failures of co-operative selling or marketing organizations have been most numerous where there have been many producers and, therefore, many sellers of the commodity concerned, such as in agriculture. The prime reason for the failure, or at best the partial success, of a producers' selling co-operative, is that a very small proportion of the commodity concerned, sold independently of the co-operative's operations, is capable of affecting the whole market for that commodity and of depressing its market price to a degree, through competitive selling, which could sometimes place the co-operative in a disadvantageous position. Except where the commodity concerned is in chronic short supply, or where the co-operative has monopolistic control of some essential marketing facility such as storage, transport or processing, the co-operative, unless it defeats its own objective by competitive price-cutting, is left with its goods still on its hands, while the independent seller reaps the advantage of market stability to the cost of which he has not contributed. The buying co-operative and the manufacturing co-operative are not confronted with this disability merely because they do not command the whole field of their particular activity" ([23]).

Commodity Boards and Co-operative Associations have worked well together in Queensland dairying, and it would seem that both co-operation and statutory control have benefited from the alliance. A majority of the Commodity Boards' members are elected by the producers under the Queensland system, and this provides the Board with "co-operative spirit," which, it is held by the author of the article quoted above, helps to ensure that the Board's "delegated governmental powers are used with a due sense of responsibility."

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* *On 5th October, 1928, a poll was held under the provisions of the 1927 Marketing of Primary Products Act, to enable N.S.W. dairy farmers to decide whether or not a N.S.W. Butter Board was to be formed under the Act. The results of the poll were:—*

In favour of the formation of a Board, 9,378 (59.6 *per cent.*).
Against the formation of a Board, 6,354 (40.4 *per cent.*).

An affirmative majority of at least two-thirds, (amended in 1931 *to one-half), was required, so that the Board was not constituted.*

Voluntary co-operation has played an even more important part in controlled marketing of dairy produce in Australia, especially during recent years, when co-operative support of controlled marketing schemes has been vital to their success. These schemes will be discussed later in this article, but here it is relevant to quote a passage from an article which appeared in the *Year Book of Agricultural Co-operatives* (1939):

> "Controlled marketing of wool and wheat has lagged behind, and although reasons for this are numerous . . . it would appear that the co-operative character of the organizations engaged in processing dairy produce and dried fruits is a very important ingredient in the marketing organization which has evolved and which has no counterpart in wool or wheat" ([24]).

Although the quotation is out of date with respect to the marketing of wheat, it serves to emphasize the point being discussed. Co-operative organization has tended to unite dairying interests, enabling them to speak with one voice on marketing proposals. It has helped set up industry-wide administrative machinery lacking in other industries, which has been easily adapted to and used for the execution of government policy with respect to controlled marketing schemes. This was particularly true of the war years when government supervision of the industry was largely achieved through the machinery already set up by the dairying industry (such as the Commonwealth Dairy Produce Equalisation Committee Ltd.). A strong core of co-operative solidarity, with the assistance of proprietary interests, has enabled marketing schemes to be instituted on a voluntary basis where legislative power to enforce them has been lacking (*e.g.*, The Equalisation Scheme). Finally, co-operative marketing, insofar as it has centralised the distribution of dairy produce, has helped to reduce marketing costs by reaping "economies of scale."

3. DEVELOPMENTS IN ORGANIZED MARKETING PRIOR TO THE PATERSON PLAN OF 1926.

The period between the outbreak of the 1914-18 war and the institution of the Paterson Plan in 1926 was one of innovation and experiment in the marketing of dairy produce, with both State and Federal Governments showing considerably greater interest in this field.

(a) War-time Changes and War-time Pools.

The 1914-18 World War brought a period of prosperity to the Australian dairying industry—the high prices which ruled until 1921 were the inducement to a marked expansion in the industry. It also led to a considerable expansion in Commonwealth control, which was facilitated by the already highly-organized character of this largely co-operative industry.

Firstly, the dairying industry came under Commonwealth price-control and the supervision of the Necessary Commodities Commission set up in the 1914-15 season. The second important development arose from the high level of export prices for dairy produce. With the export market more profitable than the Australian market, it became necessary to ensure that all factories should contribute their fair share of butter towards local and interstate supplies.

On the 6th November, 1916, the Commonwealth Prices Board set up an All-Australian Pool for Dairy Produce. Under the pooling scheme, no factory was allowed to export butter unless it made available its quota of best quality butter for Commonwealth consumption. The Minister for Trade and Customs had the constitutional power to refuse permission to export. An Advisory Committee of co-operative and proprietary interests in each State was appointed to assist in carrying out the scheme equitably. For local butter an advance of 149s. 4d. per cwt. was made for best quality butter, with a fixed percentage less for inferior quality butter. The subsequent proceeds were pooled and the resulting profit or loss distributed to the factories on the basis of the amount of "best quality butter" made available.

Pools were also established for the following four seasons under the War Precautions Act, and were controlled by the Commonwealth Dairy Produce Pool Committee consisting of Federal Government experts and industry representatives from the exporting States. This body maintained uniform local prices and was also responsible for negotiations for the sale of the annual surplus to the United Kingdom.

(b) The United Kingdom Contract.

As the war progressed, the disposal of this annual surplus became increasingly difficult, due partly to a shipping shortage. The shortage of refrigeration space for butter and cheese became acute, and cold stores at all ports were soon overflowing with butter. Moreover, it was impossible to obtain plant to extend the freezing facilities. In this desperate position, a deputation waited upon the Prime Minister, Mr. Hughes, to ask for assistance. Mr. Hughes suggested that a firm offer be made to Great Britain to induce that country to contract for the whole of our surplus. The Prime Minister made the proviso that only the surplus butter after home demand had been fully met at ruling prices could be sold under the contract. The offer was made and accepted, and in 1918 the British Government contracted to purchase the surplus of Australian butter for the period from 1st July, 1918, to 30th June, 1920. The price was 175s. per cwt. for butter scoring 90 points with rewards and penalties for butter scoring either side of this margin. This contract was extended, with the price rising to 240s. per cwt. and then to 272s. per cwt. for butter scoring 90 points, the grading price being increased to 1s. 6d. per cwt. per point. With the termination of the contract on March 31st, 1921, exports were handled for a time by an association of the local distributing firms, until the open market was restored in October of that year.

(c) Other War-time Developments.

Another extension of Commonwealth activity in dairy marketing during World War I was the establishment of the Federal Dairy Branch in the 1917-18 season, and the transfer of export grading from the States' administration to that of the Federal authority.

Mention has already been made of Federal price-control and the Necessary Commodities Commission, which fixed butter prices and regulated interstate trade, (*e.g.*, in the early years of the war New South Wales did not send butter to the other States, which drew on Victoria.) It was opposition to this body that led to the formation of

the now powerful producers' organization, the Primary Producers' Union. Soon after the inauguration of that body, a deputation was sent to the Government asking that the dairying industry be removed from the jurisdiction of the Commission. For the same purpose a conference of co-operative interests was held in Melbourne with delegates from New South Wales, Victoria and Queensland. This was one of the first real demonstrations of nation-wide co-operative strength in dairying, and is one instance of the opposition of producers to Government assistance at this period.

The resolutions of the Conference are interesting because they are almost the reverse of later attitudes adopted by the dairying industry. In passing a resolution against Federal price-fixing the Conference expressed the opinion that restrictions on interstate trade were detrimental to the industry and to consumers and were a breach of the Federal principle. The Conference also gave a guarantee that the policy of providing Australian requirements at prices corresponding to London parity would be maintained. However, within ten years the industry was enthusiastically requesting legislation to enable control of prices and interstate trade.

The New South Wales Government was also involved in two developments affecting the marketing of dairy produce during the 1914-1918 war. The manufacture, sale and export of dairy produce became subject to supervision in terms of the Dairy Industry Act passed in December, 1915. This Act had a considerable effect on quality, which was at this time coming to the forefront as a major issue in marketing.

Under this Act, "Dairy factories and stores must be registered, and are under the supervision of Government inspectors. Cream supplied to a dairy factory must be tested and graded at the factory, and the farmer is paid on the basis of the butter-fat results, or on the amount of butter obtained from his cream. Butter must be graded and packed in boxes bearing registered brands indicating the quality of the product and the factory where it was produced. Testing and grading at the factory may be done only by persons holding certificates of qualification. The Act provides also for the compulsory grading, on a uniform basis, of butter for local consumption and for exportation" ([25]).

Some difficulties were experienced at this time, and also during the early years of the Paterson Plan, in reserving from profitable export sufficient butter to satisfy local consumption, and the State Government was forced to intervene.

"The New South Wales Government came to the conclusion last autumn (of 1916) that unless some provision was made for maintaining a winter supply our requirements in this State could not be met, and it was decided to store 20,000 boxes for winter consumption. The Government undertook to finance operations and advanced merchants practically the current price prevailing in Sydney as soon as the butter had passed the necessary standard. A Committee was formed to carry this proposal into effect, consisting of the Minister for Agriculture, six Sydney merchants, and Dairy Expert O'Callaghan" ([26]).

(d) Problems of the Early 'Twenties.

When the advantageous agreement with the British Government had almost terminated there was some foreboding in the dairy industry, especially with production costs rising as they were. The first Federal pooling scheme terminated in 1921 with the British contract and the necessity of establishing the dairying industry on a stable basis quickly became apparent.

Butter production continued to increase after 1921, necessitating a big increase in exports, and soon the stage was reached when over 30 per cent. of production depended on the overseas market. (See table 3). With a contract no longer protecting the industry, there was the problem of disposing of this inflated surplus on the open market, and as the volume of exports grew, prices in Great Britain declined. London prices fell from 234s. per cwt. in 1921 to 169s. 6d. per cwt. in 1926.

Lack of stability and uniformity in the price structure which was particularly noticeable in the early 'twenties also called for reform. The variability of London and local prices is shown in Table 4. Prices paid to producers for cream varied considerably throughout the State and sometimes even within the one district. Many manufacturers engaged in a "flutter" endeavouring to anticipate the market, "which varied on almost every cabled alteration of the British market" ([27]). Speculators, interested not in the dairying industry but in the general business of buying and selling, were numerous. Dairying interests were quick to realize the need for stable prices at a level higher than the fast-receding London parity.

A minor marketing problem which received attention at this time was the question of brands. Until the early 'twenties much Australian butter was marketed under manufacturers' brands, which were so numerous that there was little chance of building up a solid national reputation. In 1922 the New South Wales Government raised the question of "why our factories were not receiving price for quality, seeing that our choicest butter was recognised as of a higher standard than the average of New Zealand. It was then said that the reason for our lower prices was that Australia placed upon the market too many brands" ([28]). In considering this, the Australian Dairy Council decided that "the butter industry in Australia should not be a disjointed concern controlled by six different bodies, but one great concern affecting all States equally. One object was to secure a standard Australian brand denoting 'choicest' " ([29]). Many years before this, in 1910, the "Allowrie" brand came to be used for some New South Wales butter in place of several other brands. This reduction in the number of Australian brands and the guaranteeing of the quality of butter exported had made purchasing an easier matter for English importers and facilitated marketing generally. From the 1st August, 1924, a national brand was placed on all butter graded for export as choicest quality. The brand consisted of the figure of a kangaroo imposed on the boxes, along with the ordinary trade-marks in use.

TABLE 3.

The Export Market for Butter, 1914 *to* 1938.

Year.	London Prices (Average top price per cwt.)	Year.	Production. '000 lb.	Exports. '000 lb.	Exports as Percentage of Production.
	s. d.				per cent.
1914	119 0	1914–15	165,821	54,106	32.6
1915	144 6	1915–16	160,071	18,036	11.3
1916	169 6	1916–17	191,484	75,362	39.4
1917	206 0 (*a*)	1917–18	191,150	72,278	37.8
1918	252 0 (*b*)	1918–19	173,725	41,115	23.7
1919	252 0 (*b*)	1919–20	186,865	39,006	20.9
1920	299 9 (*b*)	1920–21	237,576	92,421	38.9
Termination of British Contract ... Av.		1914–15 to 1920–21.	186,670	56,046	30.0
1921	234 0	1921–22	251,033	127,580	50.8
1922	183 0	1922–23	230,831	79,571	34.5
1923	184 6	1923–24	270,309	65,984	24.4
1924	189 6	1924–25(*e*)	293,633	145,281	49.5
1925	184 0	1925–26(*d*)	273,328	97,900	35.8
1926	169 6	1926–27	253,250	76,768	30.3
Introduction of Paterson Plan ... Av.		1921–22 to 1926–27.	262,064	98,848	37.7
1927	169 6	1927–28	280,838	99,165	35.3
1928	171 0	1928–29	290,790	102,443	35.2
1929	175 0	1929–30	299,928	107,663	35.9
1930	135 6	1930–31	351,370	163,181	46.4
1931	116 6	1931–32	391,249	201,552	51.5
1932	105 0	1932–33	420,396	226,329	53.8
1933	87 0	1933–34	451,841	244,299	54.1
Equalization Plan Commenced ... Av.		1927–28 to 1933–34.	355,188	163,518	46.0
1934	75 6	1934–35	469,907	262,519	55.8
1935	94 6	1935–36	433,722	212,646	49.0
1936	104 6	1936–37	396,262	174,309	43.9
1937	115 6	1937–38	430,262	197,346	45.9
1938	115 4 (*c*)	1938–39	455,834	229,543	50.4
Pre-War Position ... Av.		1934–35 to 1938–39.	437,197	215,272	49.2

(*a*) Proclaimed Price.

(*b*) Flat rate for all imported butter.

(*c*) Estimate only—unweighted average of monthly averages.

(*d*) Up to 1925 production figures are shown in calendar years. The figures of production for financial years given in the above table are the mean of figures for the two calendar years concerned.

(*e*) The cost of marketing butter in London at this period was approximately 22s. per cwt.

(*Sources.*—Commonwealth Year Books. Rural Reconstruction Commission Tenth Report, Paragraph 2569.)

TABLE 4.

Variability of Butter Prices, 1921-23.

Month.	Average Price in Sydney of Choicest Butter per cwt.			Average Top Price in London of Choicest First-Grade Australian Butter per cwt.		
	1921.	1922.	1923.	1921.	1922.	1923.
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
January	275 3	140 0	179 3	336 0	120 6	192 6
February	275 3	128 9	192 3	298 9	120 0	195 6
March	225 9	126 3	201 6	298 9	136 0	198 0
April	199 9	155 0	224 0	273 0	166 6	158 0
May	196 0	192 3	224 0	206 0	157 9	139 6
June	196 0	197 0	224 0	182 6	186 0	147 9
July	198 6	219 6	224 0	208 0	209 3	153 0
August	209 0	224 0	224 0	244 0	190 9	165 0
September	204 6	224 0	224 0	222 0	199 6	186 0
October	159 6	196 0	211 0	188 0	202 3	187 0
November...	142 0	171 6	196 0	170 0	194 9	196 6
December	140 0	168 0	209 0	150 0	167 3	209 0
Range as per cent. of Average	66.8	53.9	21.3	80.5	52.0	39.5

From the N.S.W. Year Book, 1923. Page 582.

(e) Attempted Solutions of these Problems.

Soon after the end of the War, the Hon. W. Massey-Greene, Minister for Trade and Customs and a former dairy-farmer himself, came forward with what became known as the Massey-Greene Scheme. Broadly, it was a plan by which the Commonwealth Government should undertake to back co-operative enterprises in the handling and marketing of all primary products. A Federal organization was to be set up by Act of Parliament which would—

- (1) compel a certain standard of manufacture;
- (2) provide the machinery to create a Government body drawn from the co-operative organizations and clothed with powers of general administration under the Minister, subject to his veto. The Committee would issue licenses for use of the export brand and would inspect the activities of license-holders and supervise the quality of manufacture generally.

The Minister pointed out that the Government did not wish to exercise any control, but merely to provide the machinery by which producers could standardize their product and improve marketing conditions. As the plan involved an extension of co-operative activities it naturally met with bitter resistance from proprietary interests, whilst co-operative interests extended only luke-warm support, preferring a voluntary organization within the industry rather than what they considered would involve some measure of government control. Nevertheless, the principle of a Federal body supervising marketing generally received wide support. The scheme, however, went no further.

Soon after the lapse of the British contract an attempt was made to introduce a stabilization scheme, but the arrangement was short-lived. A Queensland-New South Wales Stabilization Committee was formed for the 1921-22 season with the function of collecting a levy on production and thus creating a fund from which to equalise the returns from local and overseas sales. The scheme was discontinued owing to lack of support from the other States.

JERSEYS ON KAMERUKA ESTATE—FAR SOUTH COAST.

(f) The Australian Dairy Council, 1922.

By 1922 (possibly because the price position was becoming more serious) there was a renewal of agitation amongst some dairying interests for the establishment of a corporate Australian body representative of all sections. Representatives from various States met and evolved a plan for an Australian Council that would have statutory powers under Federal legislation. The proposals, however, were unconstitutional, involving statutory price-fixing powers to attach to the proposed body. As an alternative, a body was set up in September, 1922, called "The Australian Dairy Council," given recognition by the Federal Government, but having no statutory powers.

Of this body it was said at the time: "The Council, created in September, 1922, consists of twenty-five members, of whom ten are representatives of the various Governments and fifteen are representatives of the producers. In this Council, New South Wales is represented by one Government representative and three producers' representatives. The Council is officially recognised, and its functions are to advise the Government upon the administration of the Acts and Regulations pertaining to the production, manufacture, and standardization of dairy produce. It also endeavours to secure uniform legislation and administration in all States. The Dairy Council acts in co-ordination with the

Dairy Produce Export Control Board. In each State there is a Dairy Advisory Board, and that in New South Wales consists of representatives of producers and distributors and of the Dairy Export Control Board, and two officials representing the State and the Commonwealth Governments respectively" ([30]).

The more specific objectives of the Council were:—

- (1) To advise the Government on all matters pertaining to the advancement and protection of the industry, standardization of quality and increased production.
- (2) To increase the home consumption of all milk products.

The Council did much useful work in marketing. It assisted quality, improvement by improved grading and pasteurisation and introduced the "Kangaroo" stamp for all choicest export butter.

In New South Wales in the following year there was formed an Advisory Committee for the determination of local prices of butter, and a Committee for stabilizing the price of butter. The first-named Committee consisted of one representative of each of the three co-operative distributing houses and two representatives of an association of dairymen. The Stabilization Committee, consisting of representatives elected by the boards of directors of the butter factories of New South Wales, met for the first time on 3rd April, 1924, to consider ways and means of stabilizing prices in the dairying industry. This Committee later became part of a Federal organization—the Australian Stabilization Committee—which was to administer the Paterson Plan.

(g) The Dairy Produce Export Control Board, 1924.

During 1923 representatives of the dairying industry, led by C. E. D. Meares, began to campaign for the establishment of some body with the statutory power to fix a remunerative price more in keeping with the "costs of production." Representatives of the Commonwealth Government, however, did not receive the price-fixing proposals with much enthusiasm. The Government's attitude was expressed at a Conference on dairying in Melbourne in August, 1923, where the Prime Minister declared:—

> "The Government, after the fullest examination of the position of the dairying industry, has come to the conclusion that no permanent solution of the difficulties facing it at present can be effected unless an organized and orderly system of marketing of the export surplus is established" ([31]).

Prime Minister Bruce stipulated a re-organization of the dairying industry and the elimination of the speculator as pre-requisites of effective legislation to help the industry. Pursuing this point, Mr. Meares submitted to the Conference a copy of the New Zealand Export Control Act. Meares had visited the Dominion earlier in the year to investigate the working of the Export Control Board there, and had been impressed. Apparently the Conference reacted similarly, for it decided to recommend the formation of an Export Control Board modelled on the New Zealand organization.

The Dairy Produce Export Control Act was passed on 20th August, 1924, and set up the Dairy Produce Export Control Board with the purpose of "controlling the export, sale and distribution after export of

Australian dairy produce" (Article 14). The Act was intended to achieve continuity of supply and to reduce the costs of marketing. A similar Act was passed at this time to apply to dried fruits. An important provision of both Acts was that they were not to come into operation unless they met the approval of the classes they were intended to protect. Article 1 of the Dairy Produce Export Control Act provided for a poll of producers requiring a majority in favour of the Board's establishment.

The Dairy Produce Export Board consisted of thirteen members, one representing the Commonwealth, two from each of the States of Queensland, Victoria and New South Wales and one representing each of the States of Tasmania, South Australia and Western Australia. These representatives were to be elected by the boards of the co-operative butter and cheese factories in each of those States. In addition, there were two representatives of proprietary butter and cheese factories and one who was appointed by the Governor-General as a representative of persons engaged as sellers of dairy produce.

A London Agency was appointed to keep the Board advised as to the current prices of dairy produce and other matters relating to the disposal of Australian dairy produce in England and elsewhere, and generally to act as an agent for the Board. Exporters of dairy produce were licensed, and export by unlicensed agents was not allowed. Since the Board was empowered to advise the Minister on the issue of licenses, it was given virtual power to prohibit exports except in accordance with the conditions attached to the license. In order to facilitate its functions under the Act, the Board was empowered to "call upon any person to furnish, within such time as is specified, such returns as are necessary for the carrying out of the Act."

The Board had full authority to make such arrangements and give such directions as it thought fit for the following matters:—

(*a*) The handling, marketing and storage of dairy produce.

(*b*) The shipment of dairy produce on such terms and in such quantities as it thought fit. The Board was given the exclusive right of concluding contracts for the shipment of dairy produce.

(*c*) The sale and disposal of dairy produce on such terms as it thought fit.

(*d*) The insurance against loss within the Commonwealth or in transit, until disposed of.

(*e*) All such matters as were necessary for the due discharge of its functions in handling, distributing and disposing of dairy produce.

Further by virtue of article 17, the Board was empowered to itself accept control of any dairy produce placed under its control for the purposes of the Act. However, producers did not avail themselves of this function. Expenses of the Board were defrayed from a fund created by a levy which could not exceed 1/8th pence per pound on butter and 1/16th pence per lb. on cheese exported from the Commonwealth. The levy imposed on butter and cheese was initially 1/16th pence per lb. on butter and 1/32nd pence per lb. on cheese. These rates were later reduced to 1/30th pence and 1/60th pence per lb.

respectively. Levies were made in pursuance of the "Dairy Produce Export Charges" Act of 20th August, 1924. Exports to Eastern ports were excluded from the provisions of the Act.

The first annual report of the Board, which was published in 1926, throws some light on its early policy. The following decisions were made:—

(*a*) To improve the organization of the marketing of dairy produce in the United Kingdom, and on the Continent; and to endeavour to open up fresh markets in other countries.

(*b*) To exercise supervision over sales and distribution in all overseas markets and bring about co-ordination among distributors and selling agents, chiefly in the United Kingdom. For this purpose the London Agency was instructed to confer frequently with distributors and to advise the Board of the prices which the Agency considered should be obtained for Australian dairy produce.

(*c*) To take action to establish and maintain the identity of Australian dairy produce in the retail shops and among consumers.

(*d*) To ensure as far as practicable continuity of supplies.

(*e*) To withhold butter and cheese on overseas markets when deemed necessary.

(*f*) Advertising and propaganda to be used to bring Australian butter and cheese directly under the notice of consumers, and for this purpose the London Agency was authorised to expend such sums as the Board from time to time allocated. (The Board has taken no action in this connection since pre-war days, the opinion being that there is little to be gained whilst long-term purchase agreements continue to operate.)

Among the first steps taken by the Board to improve conditions in the export market was the negotiation of reduced insurance and shipping charges. An advertising campaign was undertaken in the United Kingdom and steps were taken to reduce the number of brands of butter marketed from some 900 to four.*

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* *Further Developments of the Dairy Produce Export Control Board.*

In 1935 *the Dairy Produce Export Control Act was amended, the Board being given extended functions under the new title of "The Australian Dairy Produce Board," with membership extended to seventeen. The Australian Dairy Council had, up till that time, been responsible for research into the problems of the dairying industry, but the Commonwealth Government had been seeking the appointment of a single body to advise it on all dairying matters. It was felt that to reduce the number of organizations functioning in connection with the dairying industry would eliminate overlapping and additional expense and enable more co-ordination in policy and administration. Therefore, the Australian Dairy Council was abolished and its functions taken over by the reconstituted Australian Dairy Produce Board, in accordance with a recommendation made by the Australian Agricultural Council in May,* 1935.

The Australian Dairy Produce Board did important work in regulating shipments to the United Kingdom and in controlling forward selling. Unrestricted f.o.b. selling had been practised for many years and the Board considered that this was not in the producers' interests and decided to fix a minimum weekly price for f.o.b. sales. During the 'thirties there was a big swing away from f.o.b. sales, from 35 *per cent. of all sales in* 1931-2 *to* 3.5 *per cent. in* 1938-9. *Since the outbreak of war in* 1939 *all export sales to the United Kingdom have been on a consignment basis.*

(h) A Home-consumption Price.

As a solution to the problem of low and unstable prices for dairy products (which was more serious in view of the fact that they followed a period of unprecedented prosperity, with costs still geared to the high price level), schemes were put forward for a home-consumption price for the dairying industry. Home-consumption price schemes aim at granting primary industry the benefits reaped by secondary industry under a protective tariff. In theory, producers can raise local prices above export parity to the level of import parity without having to make use of government assistance. However, any further increase is dependent on (*a*) a protective tariff, (*b*) organization of producers to equitably distribute the benefits of the more profitable local market. If, by any means, the local price is higher than export parity, then a home-consumption price operates.

It was argued by protagonists of the home-consumption price that the Australian farmers' costs were based on Australian living conditions. It was right then, that their receipts should be based on Australian

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During World War II the activities of the Board were necessarily curtailed and meetings of the Board were held only to comply with the provisions of the Act. Under the National Security (Dairy Produce Acquisition) Regulations the control of the dairying industry was taken over by a small committee which was vested with wide powers to control the industry under wartime conditions. The 1947 Act reinstates the Dairy Produce Board so that this authority will now advise and assist in dealing with the post-war problems of the industry, particularly in relation to the re-establishment of Australian butter and cheese on overseas markets. The Board, at the outbreak of war in 1939, comprised four producers' representatives, nine representatives of co-operative butter and cheese factories, one representative of the Australian Council of the Australian Institute of Dairy Factory Managers and Secretaries and a representative of the Commonwealth Government. The 1947 Act provided for a smaller Board of twelve in place of seventeen members. The twelve members are representative of the following interests:—

Dairy farmers of Australia (nominated from a panel of names submitted by the Australian Dairy Farmers' Federation)	2
Co-operative butter and cheese factories (one from each State)	6
Proprietary and privately-owned butter and cheese factories	2
Employees of butter and cheese factories	1
Commonwealth Government representative (Chairman of the Board)	1
	12

The completion of long-term purchase arrangements covering the export of Australian butter and cheese up to June, 1948, made it necessary for control to be passed from the wartime authority to the statutory Board. In this connection the Board is empowered to buy and sell butter and cheese intended for export on behalf of the Commonwealth Government, and for this purpose advances are obtained from the Commonwealth Bank. In view of the large amount of Commonwealth finance handled by the Board (more than £15,000,000 annually) the Government representative is Chairman. The Act also provides for the taking over of the assets, rights, obligations, liabilities, contracts, and agreements of the Dairy Produce Control Committee, the wartime authority. The Board as now constituted places control largely in the hands of the manufacturers, who have eight representatives on a board of twelve. If the Chairman of the Board dissents from any decision he may bring notice of his dissent before the Minister, who has the power to void or vary the decision of the Board. Final authority thus rests with the Commonwealth Government or its representative ([32]).

At a recent meeting of the Australian Dairy Produce Board (in June, 1949) it was decided to recommend to the Minister for Commerce and Agriculture that all processed milk products be brought under the jurisdiction of the Board's regulations.

living conditions, and in some cases this must involve a local price higher than the overseas price. The farmers themselves subscribed to this assistance for local manufacturers when they paid an import duty for imported farm machinery.

Three methods have been used in Australian marketing to establish home-consumption price schemes:—

(i) An excise duty yielding a bounty for farmers, such as the flour tax to support a home-consumption wheat price.

(ii) Voluntary organization of producers such as in the dried fruits and dairying industries.

(iii) Acquisition, such as in the sugar industry.

Where the home-consumption price scheme involves an unqualified government price guarantee for the whole of the product (such as the wartime Wheat Stabilization Plan), it is the opinion of the Rural Reconstruction Commission that administrative difficulties make acquisition of the product (*i.e.*, the third method) practically essential, unless there is either full collaboration between the Commonwealth and the States or an extension of the Commonwealth's constitutional powers. The power of acquisition is not possessed in normal peace-time by the Commonwealth Government ([33]).

The first attempt to establish a home-consumption price through the Queensland-New South Wales Stabilization Committee (1921-22) has already been mentioned. The second attempt, in 1926, was known as the Paterson Plan, and the third attempt, in 1934, was the Equalisation Scheme, which is still operating.

4. THE PATERSON PLAN.

(a) The Introduction of the Plan.

In 1924 Mr. L. E. Delroy, a Danish dairy farmer of the Kingaroy Tableland, Queensland, put forward a plan to aid the factories forced to export to lower-priced markets. Scant attention was paid to the suggestion (published in a Brisbane daily newspaper) until it was taken up officially by the Commonwealth Minister for Trade and Customs, Mr. Paterson, early in 1925. There was considerable difficulty in getting the plan launched, and strong opposition arose from many proprietary factories and various co-operatives in Victoria. At the outset New South Wales and Queensland were unanimously in favour of the plan provided Victoria accepted. In Queensland a local stabilization scheme was launched and met with unqualified success.

Finally a conference of all States at the end of 1925 approved the plan, which came into operation from 1st January, 1926, and continued until the 25th April, 1934. All States except Western Australia entered the scheme, which was administered by the Australian Stabilization Committee.

Mr. Paterson, in putting his case for the Paterson Plan, pointed out that—

> "In the past consumers have been reaping the advantage of unpaid family labour on the part of the dairymen. With butter exported the butter factory received world parity less freight, insurance and depreciation in transit. On the other hand, its sister industry, the woollen mill, had the advantage of a high tariff and the cost of bringing the woollen goods to Australia" ([34]).

The Minister further stated that "It is not an exaggeration to say that if those engaged in the dairying industry were placed on the basis of those in secondary industries, with time and a half wages for overtime, butter could not be produced at less than 4s. per lb." ([34]).

The Plan aimed at making the average return to the producer higher than export parity, eliminating all ill-advised interstate competition, stabilizing the local market under the control of a Stabilization Committee, and promoting the sale of Australian butter in competitive markets overseas. "The application of the scheme was made possible as a result of the widespread voluntary co-operative organization of producers in Queensland, New South Wales, Victoria, South Australia and Tasmania" ([35]). The Paterson Plan was an extremely simple method by which a bounty was paid upon all exports of butter, the money being obtained by means of a levy on the production of every factory. This had the effect of increasing the local price over export parity by the amount of the bounty paid, *e.g.*, if overseas parity is 1s. per lb. and a bounty of 3d. per lb. is paid on all exports, the return to the producer is 1s. 3d. per lb. But no producer will then sell on the local market for less than 1s. 3d. per lb. (in the absence of restrictions), so the local price and the adjusted overseas price become equal at 1s. 3d. per lb. The original scheme, providing for a levy of 1d. per lb. on production to yield an export bounty of 3d. per lb., was based on the fact that about one-third of Australia's production was being exported.

(b) Bounties to Support Home-Consumption Prices.

In all home-consumption price schemes based on export bounties, there are three alternative sources from which the necessary revenues may be drawn. There are also the two alternatives of paying a bounty on exports only, or on the whole of production.

(1) *Bounty from General Revenue.* If the scheme is financed from general revenue and a bounty paid on exports the effect is that part of the benefit derived from the scheme by the dairying industry comes from the general consumer (through the increased local price) and part from the bounty drawn from government funds.

However, if the bounty is paid on the whole of production the whole of the benefit to the dairy industry comes from the bounty and the local price does not change, remaining at the same level as overseas parity.

(2) *Bounty paid from Tax on Consumption.* If the bounty is paid from a tax on consumption, the amount of the bounty depends upon what percentage of the product is home-consumed and on the amount of the tax. Assuming that the excise tax is 4d. per lb. of butter, and 50 per cent. of production is home-consumed, the remainder being exported, then the bounty paid on production would be 2d. per lb. The consumer would pay an extra 4d. per lb. and the producer would benefit by 2d. per lb.

If the bounty of 2d. per lb. were paid only on exports (necessitating a tax on consumption of only 2d. per lb.) exactly the same result would be achieved. Producers selling on the local market would have their returns increased by 2d. per lb. because the local price would rise to equality with export returns. For the same reason consumers would contribute an extra 2d. per lb. (as well as the tax), making their total contribution 4d. per lb., *i.e.*, the local price would rise by 4d. per lb.

(3) *Bounty paid from Excise on Production.* It was this third method that was adopted to finance the Paterson Plan bounty. Superficially it would appear pointless, from the viewpoint of the dairying industry as a whole, to impose a tax on producers of butter to pay a bounty to exporters of butter. However, as in method (2), a price rise following on the payment of an export bounty of 4d. per lb. (derived from a levy of 2d. per lb. on the whole of production) would mean that the consumer would pay an extra 4d. per lb. and the producer would receive a net gain of 2d. per lb. The gross returns of producers selling either to the export or the local market would increase by 4d. per lb., but each would have paid a levy of 2d. per lb. on production.

Of the three methods of financing this type of home-consumption price scheme, the first would probably be the most unpopular. Producer organizations have in the past objected to schemes which leave them dependent on a periodical grant, on the grounds of lack of security. Furthermore, a direct subsidy of this type would be unpopular with taxpayers, involving, as it probably would, an increase in direct taxation. The choice between the second and third methods is largely a matter of administrative convenience, since they yield similar financial results.

One of the main limitations of the home-consumption price is the difficulty likely to result from increasing production (stimulated by the increased returns), necessitating the export of a larger proportion of total production. Where the second system is used—involving a tax on consumers—butter consumed locally, multiplied by the tax per unit paid by home consumers, must cover butter exported multiplied by the export bounty per unit. Under the third system—that applied in the Paterson Plan—the total production of butter, multiplied by the tax on producers per unit must cover total exports of butter multiplied by the export bounty per unit. In both cases it is obvious that, *ceteris paribus,* either the tax must be increased or the bounty reduced when increased production occurs without a corresponding increase in home consumption.

This means that either the price to the consumer must rise, or the return to the producer must fall, or both. This threat of inflated production, encouraged by artificial assistance for exports, is one of the reasons why controlled marketing sometimes leads to, and needs as a complement, measures for controlled production.

(c) The Immediate Results of the Paterson Plan.

With the rise in the local price resulting from the Paterson Plan Australian producers were threatened by New Zealand imports of butter. The Commonwealth Government met this situation by imposing a duty on butter imports, which was increased from 2d. per lb. to 6d. per lb. This had far-reaching effects both on our own trade position and that of New Zealand. The New South Wales Livestock Bulletin, commenting on this development, quoted the reactions of a New Zealand journal to the duty ([36]):

> "New Zealand Suffers under Protection and Paterson Plan—Australian Trade Was Worth a Million. The imposition of the 6d. duty ended a profitable if intermittent trade with the Commonwealth by New Zealand. In the twelve months before the announcement of the new duty New Zealand sent over about 200,000 boxes of butter realizing somewhere near £1,000,000 . . . New Zealand exported these amounts with expenses including 2d. per lb. duty and ½d. per lb. freight. The sixpenny duty ends this . . . Last year the Paterson Plan put an extra £2,000,000 into the pockets of Australian dairy farmers. The increased duty and the fourpenny bounty will raise this amount to about £3,000,000."

The Livestock Bulletin went on to say: "There is evidence that under the Paterson Plan, the Australian exporter is under-cutting the New Zealand exporter in Great Britain, Canada and the East. During the present season our exports to Canada are already in excess of 100,000 boxes and there is every likelihood that this market will be closed to us in the near future by a prohibitive duty". (Soon after this was published the Canadian Government imposed an import duty of 6 cents per lb. on butter as an "anti-dumping measure").

The Live Stock Bulletin concluded with these words:

> "Bounties, Paterson Plans and the like must work against the interests of other countries, though they are designed in the interests of the countries that adopt them. Self-interest is a very unpleasant trait in others, but, in these hard times, a very necessary one in ourselves."

The Paterson Plan had the effect in 1926 of raising the prices in the local markets of Australia to a uniform level. Prices rose by 3d. per lb. in Victoria, 2d. per lb. in New South Wales, and 1d. per lb. in Queensland, due to different prices ruling in each State prior to the Plan. There was no occasion to interfere with free trade between the States except insofar as one State, (Queensland), tried to raise the home-consumption price by more than 3d. per lb.

In 1926 there was a rapid inflation of butter prices which threatened to wreck the scheme. Victorian prices had risen slightly higher than the uniform level, and, not to be outdone, Queensland went ½d. per lb. higher. This continued until Queensland was selling butter to Victoria at 184s. per cwt. in March, 1926, with London parity at 140s. This was a breach of one of the principles of the Paterson Plan, a uniform price in every State. Co-operation between the States later improved. However, the Paterson Plan was approximate equalisation only, as the London price varied from day to day. Up until the introduction of the Plan local prices had risen above export parity in the months of non-export and had varied between the States. This continued after the introduction of the Paterson Plan, when local prices in some States at certain periods of the year rose above export parity plus the Paterson bounty.

As butter prices on the London market fluctuated, and as the ratio between home consumption and exports varied in Australia, it was found necessary to frequently adjust the rates of levy charged and bounty paid. The following table summarizes these adjustments.

TABLE 5.

The Rates of Levy and Export Bounty under the Paterson Plan.

Period.	Rate of Levy. per lb.	Rate of Bounty. per lb.
1st January, 1926, to 11th December, 1927	1½ ..	3
12th December, 1927, to 31st December, 1927	1½ ..	4
1st January, 1928, to 31st August, 1928	1½ ..	3
1st September, 1928, to 31st December, 1928	1½ ..	4
1st January, 1929, to 31st December, 1930	1¾ ..	4½
1st January, 1931, to 31st March, 1931	1¾ ..	3½
1st April, 1931, to 11th April, 1931	1¾ ..	3
12th April, 1931, to 2nd April, 1932	1¾ ..	2½
3rd April, 1932, to 25th April, 1934	1¾ ..	3

(*Source*: Tenth Rural Reconstruction Commission Report, p. 168.)

(d) Benefits of the Paterson Plan.

An estimate can be made of the extent to which the producer benefited financially from the Paterson Plan. Since the bounty resulted in an automatic increase in the local price up to the amount of the bounty paid, the average return to the producer on all butter produced was increased by approximately the amount of the bounty less the rate of levy charged. The rates of levy and bounty were altered eight times during the life of the plan, and these periods do not coincide with the periods to which available statistics of production and exports apply. Therefore an accurate calculation cannot be made, but an approximation can be obtained by averaging production, exports, bounty and levy over the five years.*

Average production, 1926-1933, 342,000,000 lb.
Average exports, 153,000,000 lb.
Average bounty, 3.4d. per lb.
Average levy, 1.64d. per lb.
Increased value of 3.4d. per lb.** on total production of 342,000,000 lb., £4,845,000.
Less amount required to provide export bounty of 3.4d. per lb. on 153,000,000 lb. exported, £2,167,500.
Estimated average net gain to producer per annum from bounty-levy system, £2,677,500.

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* *If further accuracy is required, the amounts of bounty and levy could be weighted approximately according to the levels of export and production attaching to them.*

** *This is the increased value resulting from the bounty-levy system. However, the duty on imported butter of 6d. per lb. allowed for price increases in excess of the bounty paid on exports, e.g., "For the last six months, the home price for butter has been greater than export parity by 62s. per cwt.—6.7d. per lb. Import parity is the price at which New Zealand butter could be landed duty-free in Australia. The cost of shipping butter from Australia or New Zealand to London is about 1d. per lb., and the cost from New Zealand to Australia can safely be covered by the same figure. Import parity will be, therefore, about 1d. per lb. higher than export parity. The home price is therefore 6.7d. per lb. above export parity, and at least 5.7d. per lb. above import parity. For rough purposes, we may say without qualification that the home price raises the price of butter 6d. per lb."*

(*From "The Home Price and Export Industries," 1934, by L. F. Giblin, quoted pp. 172-175, Tenth Rural Reconstruction Commission Report.*)

It should be noted that the above figures do not take into account any consequent increases in the price of milk or other milk products, nor any decrease in consumption resultant therefrom. Furthermore, there is no allowance for the effect of the plan on dairying production costs.

Such an estimate of direct financial benefit must be considered along with the general question of the extent to which a home-consumption price can benefit export industry generally, if at all. A theoretical analysis made by Professor L. F. Giblin and submitted as a memorandum to the Royal Commission on the Wheat, Flour and Bread industries in 1934, reached the conclusion that in some circumstances a home-consumption price is ultimately of little assistance to export industry ([37]).

Briefly, the reasoning was along these lines:—

In investigating the incidence of a home-consumption price, the first impression is that the high local price means that the whole community is contributing to help the industry over hard times. If this is the case, and the product concerned is a *necessity,* then the home-consumption price is, in effect, a steeply regressive tax, particularly in the case of a commodity such as butter. Professor Giblin then raises the point that "there is no reason why a tax for the relief of butter producers should be levied on butter more than on any other commodity," since the tax is meant to be on the consumer as such. Against Professor Giblin's view, however, it could be pointed out that a tax on petrol to assist butter producers, whilst it would not affect the return per gallon to petrol producers, would undoubtedly reduce gross returns, since demand for petrol would be less at the higher retail price. In such cases the incidence is not altogether on the consumer.

However, this widely-held belief that a home-consumption price distributes the burden over the whole body of consumers is, according to Professor Giblin, quite fallacious in a country such as Australia, where adjustment of wages to prices is fairly rapid and accurate, through awards.* A tax on necessities falls mainly on employees in the first instance (and employees represented 77 per cent. of consumers in 1934). Thus, with a tax on any commodity in the retail price regimen, about 77 per cent. of the burden falls on employees† and is passed on to employers through higher wages, whilst the remainder falls on industry direct.

At this stage, most of the burden has been passed on to industry. Unsheltered industry (mainly export industries) which cannot pass on increased costs through higher prices, must retain this burden. Sheltered industry raises its prices and thus effects a wide range of commodities, many of which are in the retail-price regimen. Wages then rise (more incidence passing on to unsheltered industry), and

* *In other countries where retail prices and wages are not so intimately related the incidence of the home-consumption price will be distributed differently, e.g., "During the depression period, retail prices have fallen 20 per cent. since 1928 in Australia, and average wages have also fallen 20 per cent. In Great Britain, by contrast, retail prices fell 17 per cent. in the same time, and wages only 5 per cent. . . ."* ([37]).

† *This involves the reasonable assumption that, in the case of necessities, consumption is more closely related to numbers than to income.*

prices in sheltered industry rise sympathetically, leading to a further wage rise, until eventually much of the burden of sheltered industry has been loaded on to the export industries. In the final analysis, most of the assistance given to a particular export industry falls on unsheltered industry, consumers with fixed incomes and consumers generally. Much of the greater part will fall on unsheltered industry.

The conclusion is that most of this assistance to an export industry (about 60% to 80%) falls on export industry generally, and the proportion of incidence falling on different classes of export production (wool, wheat, butter, etc.) will be roughly proportional to their total production costs. To a certain degree then, it would appear that a home-consumption price to assist farmers, if used over a wide field of exports, would amount to "pulling oneself up by one's own boot strings."

In re-considering, in the light of this analysis, our previous estimate of roughly £2,700,000 as the annual gain to the dairy farmer from the bounty paid under the Paterson Plan, we could proceed along these lines. Adopting Professor Giblin's rough estimate, about 60 to 80% of the incidence of the assistance to dairying was borne by unsheltered (mainly export) industry. If we arbitrarily assumed that total costs of production in the dairying industry represented 20% of the total costs of production in export industry, we could then calculate approximately what amount of the incidence attaching to the export industry was borne by the dairying industry itself. This could then be deducted from our previous estimate to give the dairying industry's net gain from the bounty, thus allowing for the effects of the Plan on costs of production.

(e) Difficulties Under the Paterson Plan.

By 1929 the bounty had risen to as high as 4½d. per lb., with the levy at 1¾d. per lb., and this rise, together with the very large increase in production and exports, threatened insolvency for the Fund. In 1929 the amount of levy collected was £2,155,582 and the bonus paid to butter exported overseas was £2,119,193. Total working expenses in that year were £10,354 ([38]).

During 1930 there was a potential deficit in the Fund, and as it was considered inequitable to raise the levy in mid-season, a difficult problem was faced. Mr. Meares of the P.D.S. put forward a solution which was at first considered fantastic, in view of the Fund's complete lack of securities and assets. It was suggested that an overdraft of £50,000 (later £100,000) be sought to carry the Fund over until the season slackened, when the levies due would greatly overtop the deficiencies. This was eventually done, and subsequently the overdraft was increased to £200,000 to meet the extraordinary production that had occurred since the first financial difficulties were encountered. "This saved the scheme from collapse and enabled maintenance of a reasonable bonus during a period of very heavy production." ([39]).

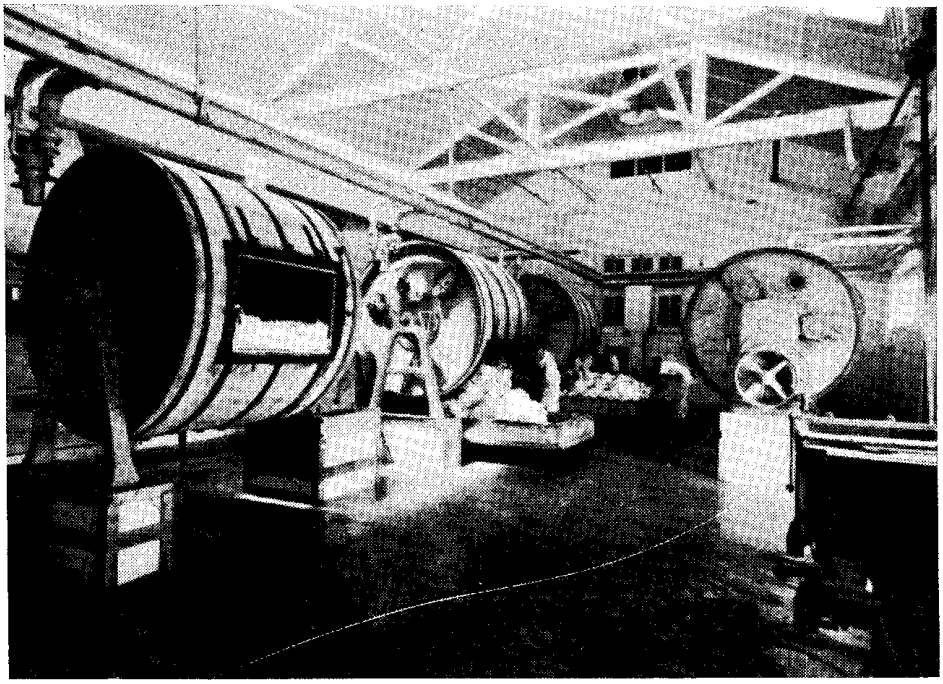
The advance, which was made in January, 1931, was liquidated in October of the same year.

Another factor working against the success of the Paterson Plan was farm production of butter, which paid no levy. Production of this butter increased considerably during the depression years and cut the home-consumption price.

The President of the Dairy Factory Managers' and Secretaries' Association said in his annual address for 1934:—

"Farm butter is becoming a serious competitor in New South Wales and I understand that the number of farms making butter are between sixteen and seventeen hundred, and a rough estimate of butter manufactured last year was 2,000 tons. If the people producing this butter are permitted to continue in this line, we consider they should be subject to the same control as butter factories." ([40]).

Today the amount of butter produced on farms for sale is negligible. A person who manufactures and sells butter in excess of 40 lb. in a month is a "manufacturer" within the meaning of the New South Wales Dairy Products Act. "There is now only one person who can be classified as a manufacturer under the Act, remaining of the 2,090 persons who have come under the notice of the Board as manufacturers of farm butter since the Board commenced operations in 1934." ([41]).



THE COMPLETED PROCESS OF BUTTER MANUFACTURE.

Australia's trading position in dairy produce was improved in the 'thirties by the effects of the Ottawa Agreement in 1932, under which substantial duties were placed on foreign butter imported into the United Kingdom, Australian butter being admitted duty free. Empire Preference in this case took the form of import duties of 15/- per cwt. on butter and 15% ad valorem on cheese.

Nevertheless, the dairying industry's marketing position continued to deteriorate, and by 1933 the situation was very serious and called for government action. London prices had fallen from 175/- per cwt. in 1929 to 87/- per cwt. in 1933, and the fall was to continue (see Table 3). Furthermore, new manufacturers were entering the industry, and some

refused to pay the levy, whilst still reaping the advantages of the home-consumption price set up by the Plan. The increase in production, necessitating greater revenue for export bonuses, was accelerated, until the export surplus reached 54% of total manufacture.

A report on the position by the New South Wales Director of Dairying in 1933 stressed that "the life of the Paterson Scheme is measured by mathematics. The Paterson Plan can continue while there is a gross margin of at least ¾d. per lb. between the amount paid out in export bounty per lb. and the amount levied per lb. on total production. Out of the ¾d., ¼d. goes in expenses. The ½d. difference that is left is barely sufficient to meet the dangers and risks of fluctuating prices on the London market. When the exportable surplus reaches 70% of Australian manufacture, the Paterson Scheme is in grave danger. If the exportable surplus attains 80% and the levy is 2d. on total production, the bounty would be 2½d., leaving only ¼d. margin after paying the costs of conducting the scheme. Apart from this mathematical calculation the life of the Paterson Scheme may be varied by the following factors:—

(*a*) London trading policy (restrictions on imports).

(*b*) Climatic conditions in Australia.

(*c*) Increase in consumption in Australia.

(*d*) The effect of low pays to farmers on production.

(*e*) The extent to which financial stress will force farmers to produce more per acre and per cow."

To this list could have been added:—

(*f*) An increase in the contribution of Australian consumers. This could be arranged by equalising bonus payments and levy payments at a higher level, thus further raising the local price.

The factor mentioned under (d) played a very negative role;—in fact this period exhibits the economic paradox of low prices stimulating production. Farmers produced more to keep up their incomes in the face of falling prices. This fact must be taken into account when considering the argument sometimes advanced that the Paterson Plan carried within itself the seeds of its own destruction, in that by encouraging exports it helped to increase production.

We may compare the two four-year periods 1926-27 to 1929-30, and 1930-31 to 1933-34. In the former, London prices rose slightly and the export bounty advanced from 3d. per lb. to 4½d. per lb. In the latter period, London prices fell disastrously (see Table 3), the export bounty receded to 2½d.-3d. per lb., and the average return to New South Wales producers fell from 12½d. to 9¼d. per lb. Between 1926-27 and 1933-34 butter production increased by approximately 79%. Yet only 24% of this increase of almost 200 million lbs. occurred in the comparatively favourable period 1926-27 to 1929-30, and 76% occurred, (despite the discouraging conditions), in the period 1930-31 to 1933-34.

(f) Milk Products other than Butter.

Since all dairy produce other than butter was in competition with butter for the farmers' milk supplies, the butter price rise resulting from the Paterson Plan was reflected in price rises for other dairy produce.

Where manufacturers were forced to pay higher prices for milk and cream and sold their produce on a strongly competitive overseas market without the assistance of a bounty, the rise in costs weakened their position. Where they sold on the local market at a price which allowed for the increase in costs, they had to bear the loss of a certain amount of consumers' demand. These difficulties applied particularly to manufacturers of condensed milk who were building up an export market.

The New South Wales Livestock Bulletin in 1930 reported that "Suppliers of milk to the Nestle and Anglo-Swiss Condensed Milk Co. Ltd., were forced to accept a reduction equal to 1½d. per lb. butter fat," and went on to cite some of the reasons discussed above as justification for the reduction ([42]). It was stated that Australia's exports of condensed milk were being threatened by increased costs following upon the Paterson Plan. It was further pointed out that if condensed milk exports ceased, another six million gallons of milk would be used to swell butter exports, involving bounty payments, and this would contribute to the difficulties of the Paterson Plan.

Prior to the introduction of Cheese Equalisation in 1934, a scheme for cheese similar to the Paterson Plan for butter operated in various States. Victoria, South Australia and Tasmania combined to form the Southern States Cheese Stabilization Committee and the Queensland Cheese Board operated an equalisation scheme similar to that now in operation. In New South Wales machinery had been set in motion to organise cheese manufacturers on a similar basis to that in the other States. The original Paterson Plan had been to include cheese as well as butter, but this was not done ([43]).

5. EQUALISATION.

(A) Compulsory Equalisation.

(a) The Introduction of the Scheme.

Eventually it became evident that for reasons already mentioned, purely voluntary action as under the Paterson Plan was insufficient, and legislative action was sought to set up a new system of stabilization. Conditions without the operation of such a plan would have meant that the export surplus would have had the effect of reducing local values to those of London, plus exchange, less charges incidental to shipment.

"Obviously 'B' factory would not be prepared to ship to London on a market which promised it, say, 90/- per cwt., while 'A' factory sold locally at a higher rate. The natural result must, of necessity, mean a reduction in local market values to 90/- per cwt." ([44]).

To maintain the local price at a level independent of world values, it was necessary to guarantee each manufacturer his fair share of the local market, otherwise price-cutting would result. A series of legal rebuffs in South Australia and Queensland* had reduced the power of the States to legislate for controlled marketing, and it was found that both State and Commonwealth legislation would be necessary to apply a quota system effectively.

**These cases—James V. The State of South Australia* (1927),
James V. Cowan (1932).
The Peanut Board V. The Rockhampton Harbour Trust (1933),
are discussed in Section 5.

The various States participating in the scheme passed Dairy Produce Acts setting up authorities to limit the amount of butter and cheese to be sold locally, whilst the Commonwealth Dairy Produce Act of 1933 arranged for the imposition of export quotas. The quotas were fixed monthly and were complementary. Thus if the intrastate quota was 40%, the export quota would be 60%.

Every State entered the Cheese Equalisation Scheme with the exception of Western Australia, whilst both Western Australia and South Australia remained outside the scheme in respect to butter. These two States operated schemes of their own, with local prices differing slightly, but in sympathy with the scheme operating in the Eastern States.

The Federal legislation provided that a poll of producers should be taken within six months of the proclamation of the Act, as to its continuance or otherwise. The poll was held on 11th October, 1934, and the result was:—

In favour of the continuance of the Act	50,747
Against the Act	1,416

The Paterson Plan terminated on 25th April, 1934, and the Equalisation Scheme came into operation on 1st May, 1934, the intervening five days being for the purpose of clearing stocks.

(b) The Commonwealth Dairy Produce Act, 1933.

The Commonwealth's control of interstate marketing was exercised by the licensing of interstate traders and carriers. One of the conditions of an "owner's" or "trader's" licence was that the licensee should export the prescribed quota (fixed after advice from the State Dairy Produce Boards as to consumption quotas). The only condition inserted in a "carrier's" licence was that the licensee would only accept delivery from a person holding an "owner's" license. This plan applied to both dairy produce and dried fruits, and in 1935 it was intended to extend the same principle to the wheat industry. However, the James Case in 1936 (discussed in Section 5), made this Commonwealth legislation unconstitutional and threatened the marketing of both dried fruits* and dairy produce.

(c) The New South Wales Dairy Products Board.

The scheme applied was similar to that already operating in the dried fruits industry. "The Boards set up under the State Acts fixed a proportion of production to be exported from each State, so that the amount remaining was just sufficient for home consumption, and the price could bet set at any arbitrary figure" ([45]). (1/3d. per lb. at the outset of the scheme). These Boards still operate.

**The first quota schemes (applied to dried fruits) were instituted under State legislation in the following years:*

1924—*Victoria and South Australia.*
1926—*Western Australia.*
1927—*New South Wales.*

The quotas for butter and cheese and the values at which sales are taken into account for equalisation are identical in all the States concerned in the scheme. Although the requirements for home consumption are fairly steady, the quotas vary considerably from month to month. In 1948-49 the New South Wales butter quota varied from 34.67% in November, to 75.36% in June, and the corresponding variation for cheese was from 24.56% to 66-2/3%. These variations in the quota are the result of seasonal variations in production.

Under the New South Wales Dairy Produce Act, passed in 1933, the principal duties of the Board are:—

> "To recommend to the Minister for Agriculture, on the basis of production and consumption, quotas for the purpose of intrastate trade, and to check the State production and consumption to ensure that these quotas are complied with . . . The Board and the legislation under which it is constituted, other than in relation to the determination of quotas, do not in any way govern the distribution of the products or interfere with the freedom thereof" ([46]).

The legislation provides for manufacturers to make contributions to the Board for the administration of the Act. This is the Board's sole source of revenue. These charges are almost negligible for the individual producer, e.g. in 1948-49 total contributions were:—

£831 15 2 for butter,
£30 16 5 for cheese,

collected from 61 butter factories and 29 cheese factories within the State. The Board has seven members, one a Government nominee, two representatives of the Primary Producers' Union, two representatives of the co-operative factories and two representatives of the proprietary factories

"If, in the opinion of the Board, it is inconvenient or not possible for manufacturers to strictly comply with the quota provisions of the legislation, the Board is prepared to recognise suitable proxy arrangements to correct the position. This is invariably effected by means of a voluntary system of equalisation made through a private company known as the Commonwealth Dairy Produce Equalisation Committee Ltd., which represents practically 100% of the industry ([47]).

(d) The Commonwealth Dairy Produce Equalisation Committee Ltd.

For the administration of the scheme, members of the Dairy Products Boards of the States concerned and other persons representing manufacturers of dairy products were organised in 1934 as a limited company. In 1936 the Tasmanian Act was repealed and the Board abolished, but that State remained in the Equalisation Scheme. The share capital of the Company is fixed at £36, divided into £1 shares held by the members of the Board. The Secretary of the Dairy Products Board in each State is a member of the Equalisation Committee.

The objects for which the Company was established are listed in the Company's First Report:—

(*a*) To maintain, develop and preserve the Dairy Industry in the Commonwealth of Australia.

(*b*) To secure to manufacturers of Dairy Produce in the Commonwealth as far as possible equal rates of return for sale of their products.

(*c*) To fix from time to time by means of agreements with manufacturers a basic price or prices at which Dairy Produce manufactured in Australia shall be taken into account for the purpose of bringing about an equality in the rates of returns.

(*d*) To fix or prescribe from time to time amounts of costs incidental to transport of Dairy Produce Interstate.

(*e*) To raise money from manufacturers by means of a levy to provide funds for the purpose of the Company.

(*f*) To make such payments to or reclamation from manufacturers as are necessary to give them equal rates of returns for their sales.

(*g*) To obtain such information directly or indirectly from manufacturers and their agents, as may be required by the Company.

One of the reasons for the formation of the Company along these lines was that strict adherence to quotas for local sale by each manufacturer would have been inconvenient. Instead, a financial adjustment was made. Manufacturers who disposed of more than their quota to the more remunerative market made, in effect, a contribution to the Equalisation Fund, and those who sold more than their quota on the cheaper market were re-imbursed from the Equalisation Fund. Thus the proceeds of sales of butter were equalised between factories, the State Dairy Products Boards' quotas being, from this point of view the proportion of output upon which the local price was paid to each factory. If a factory manager did not agree to equalise in this fashion, he was forced to adhere to the monthly quotas as promulgated by the Board in his State.

The Commonwealth and State Acts did no more than provide quotas; they did not establish machinery for price equalisation. This was left to the leaders of the dairying industry, and the Company was formed to give effect to:—

(*a*) State legislation.

(*b*) Federal legislation.

(*c*) The agreements entered into by manufacturers to support the Fund.

"The Company provides what may be termed a Commonwealth Central Authority for the stabilizing of conditions attaching to marketing within the Commonwealth as a whole. In this way is exercises a function that is outside the scope of the Australian Dairy Produce Board which deals with exports, and of the State Boards operating in the various States, the authority of each of which is limited to marketing conditions involved within the borders of its own State. In effect, then, the Commonwealth Dairy Produce Equalisation Committee Limited co-ordinates the activities of State Boards and provides a link between them and the Australian Dairy Produce Board. It does not, in its actual functioning, interfere with usual trade practices; yet by its equalisation it ensures the same results in values to factories as would follow their strict adherence to stated quotas in sales on all available markets" ([48]).

(e) Method of Equalisation.

The equalisations were effected monthly (until 1942) on a basis of sales and/or consignments overseas in that period: "Local sales (intra-state and interstate) are taken in at values fixed by the Company. Overseas sales are worked out at values determined by the Company for each boat. Having established values for each boat, the quantities shipped in each boat by the different States are taken into account, and an average overseas value is struck in respect of each State. To this is added exchange, and from it is deducted transport and selling charges to establish a net overseas average for each State.

The rates, *i.e.* Local, Interstate and Overseas, thus established, are applied to the sales of factories on the different markets and the realisations of each factory established. To the total sales of each factory is then applied the average Commonwealth price, which is ascertained by dividing the total quantity sold on all markets by all factories into the total realisation of all factories on all markets. The results of the application of the average price discloses that some factories' realisations are in excess of what they should be, while others are lower. In consequence, monies are reclaimed from some factories and rebated to others. The reclamations and rebates must therefore automatically balance" ([40]).

Each factory (and therefore each producer) gets for his produce the average price covering all sales on all markets. The same method is used now, with some modifications, such as the inclusion of subsidy payments. It was arranged under the Equalisation Scheme that if one State was short of butter, the other States paid transport charges on shipments, so that the flat prices established throughout all participating States could be maintained.

(f) Agreements with Producers.

From the initiation of the scheme, each manufacturer has entered into an Agreement with the Committee. Under the Agreement the manufacturer agrees to contribute money required for the administrative purposes of the Company and for the establishment of a Commonwealth Fund for equalisation purposes. It is agreed by the parties that the Fund be used to eliminate the difference between:—

(*a*) the realisations of the dairy produce consigned or sold by the manufacturer, or taken into account for equalisation purposes, and

(*b*) the final net equalised value announced by the Committee.

Under the Agreement, the Committee fixes the prices at which dairy produce is taken into account for equalisation purposes, and the manufacturer agrees to supply the Committee with the details of his stocks, consignments and sales.

(g) Justification of the Home-consumption Price.

The Equalisation Scheme enabled the dairying industry to fix the price for butter and cheese at a level considerably above export parity. The local price could be determined on Commonwealth economic conditions. This was taken by some critics to involve a subsidy on exports,

and fears were held for the economic consequences of Australian producers not accepting world parity values. The case for the home-consumption price was well put in the Committee's First Report:—

"Do our critics realise what this would mean to the Dairying Industry? It would mean that for the whole of our butter, that is, the 60% exported overseas and the 40% sold locally, we should accept the value ruling in Britain, less approximately £13 per ton export costs. In other words, the Dairy Farmer, who, in the value of his tools of trade, is in effect paying freight to Australia from Britain or foreign countries together with the cost of the protection necessary to maintain high Australian living standards, must accept for his product a price determined by competition with cheap labour countries throughout the world, less again the freight and other charges incidental to shipping—yes, even on the 40% of butter which never leaves Australian shores, would he be obliged to pay freight and other costs incidental to export.

"We wish to state that the Equalisation Company's policy does not necessarily involve a higher local price than that operating for export. It is feasible that there might come a time when overseas wholesale values for our butter are higher than those operating locally. It might be here stated that in many European and other countries, retail values of butter to-day are greatly in excess of those which have operated in the Commonwealth since the inception of the Equalisation Plan. In Britain at present, there is being sold retail weekly, thousands of tons of butter at a sterling value of 1/3d. per lb., which in Australian currency would represent more than 1/6 per lb. (The Australian wholesale price was at this time 1/3d. per lb.) The Equalisation Committee has no apology to offer for removing the matter of the stabilizing of local values from influences operating ten or twelve thousand miles away, over which it has no control" ([50]).

The dairying industry already had a protective tariff, but this would have been valueless without equalisation to ensure that the huge export surplus did not bring down the local price.

(h) Equalisation in Western Australia.

Western Australia did not participate in the general Equalisation Scheme, but operated a scheme of its own. In that State the butter factories paid to the Butter Board a certain percentage of their net profits which was later redistributed. The Butter Board fixed the price of butter at a level fairly close to that ruling in the Eastern States and from that price was levied a contribution to be paid towards stabilization. From this fund a premium was paid for quality and the expenses of the Board were deducted. Payments to producers were then equalised as in the Eastern States. In Western Australia, the State acted as the stabilization authority, not a company. The general Equalisation Scheme in the Eastern States was not directly based on legislative enactments, (although these were necessary), but on contracts between the Committee and the manufacturers.

Western Australia has since entered the Australian Equalisation Scheme, but still preserves a local scheme, in a modified form, for the purpose of adjusting certain differences which cannot be provided for by the Australian Scheme. Only a small amount is collected for these purposes. In 1948-49 the rate of contribution was 1% from July to

November, and 2% from December to June. The Scheme is operated by the Dairy Products Marketing Board under the Dairy Products Marketing Regulations Act, 1934-37.

(i) The Early Years of the Scheme.

During 1934, London butter prices fell to an extremely low level (see Table 3) and at times dropped to as low as 6d. per lb. The London market was saturated and many experienced men favoured proposals put forward for the restriction of production in both Australia and New Zealand. Plans were drawn up showing what percentage of cows should be put out of production in these two countries. Fortunately, however, there were men in the industry who considered that this over-production was only a passing phase, and this held up the implementation of the scheme, which later proved to be unnecessary. Weather and other conditions had their effect and butter production fell considerably in 1935 and 1936. The average equalisation rate improved, because of a partial recovery of London prices in 1935 and because of the fact that increased home consumption and decreased production meant that a greater proportion of butter was sold on the more remunerative Australian market. Whereas in 1934-35 only 38% of Equalisation Sales were on the Australian market, 46% of sales were made locally or interstate in 1935-36. Although actual sales fell by nearly 10% over that period, total realisations increased by 3% and the Equalisation Scheme had "passed the crisis."

(j) The Effect of the James Case.

The James case in 1936 applied as directly to the dairying industry as to the dried fruits industry, since both were operating under the same type of legislation. There were no serious immediate consequences in either industry. When the judgment was delivered, practically the whole of the 1936 season's dried fruits had been sold and arrangements had been made for the export of the surplus. The challenge of James was eventually overcome in the dried fruits industry through the purchase of his interests by a large co-operative packing company, and the industry was able to continue its marketing scheme on a voluntary basis.

Immediate dislocation did not occur in the dairying industry, partly because of the fact that when the judgment was announced, the London price of butter (115/- sterling per cwt.) did not differ greatly from the Australian fixed price of 146/- per cwt. Thus the temptation to unload large quantities of butter interstate was not very great, particularly as the dairying industry, like the dried fruits industry, was well organized. Even more important in the short run was the fact that the agreements between dairy produce manufacturers and the Equalisation Committee could only be terminated by either party after six months' notice, so that the industry had a breathing-space in which to re-organize.

Considerable concern was felt by manufacturers and producers at the possibility of being thrown back on to export parity. The very important financial benefits which resulted from home-consumption prices were being threatened. It was calculated at the time that the home-consumption price system was adding £200,000 per annum to the income of producers of dried fruits, and the benefits which had accrued to dairymen since the introduction of the scheme in 1934

were estimated at approximately £5,000,000. These two industries were the only ones threatened because they were the only ones administering home-consumption prices. The Boards governing the marketing of wine, meat and peanuts were unaffected.

(k) Seeking a Solution.

Two solutions were put forward and considerable controversy raged over their merits and demerits. The States of South Australia, Tasmania and Western Australia favoured a system of excise and export bounty, which would support a home-consumption price as under the Paterson Plan. The three large Eastern States favoured seeking a referendum to extend the Commonwealth's power over marketing by amending the Constitution to allow for Federal control of interstate trade.

In connection with the former proposal, its opponents pointed out that there were political difficulties attaching to any scheme which required the periodical passing through Parliament of a special tax on a commodity in general consumption. It was felt that this plan did not offer sufficient security to the industry. Furthermore, it was pointed out that financing the export bonus from an excise tax in the case of a necessity such as butter, amounted to an extremely regressive tax on the consumer.* It was stated that this effect could be avoided if the assistance to the industry were financed by subsidising exports directly, so that the incidence of the tax was not on the consumer, as a consumer, but on the payer of income tax, which was progressive.

The protagonists of the second proposal—to change the Constitution—asserted that there was a gap in the Constitution which should be filled. They pointed out that before Federation each Colony did control all three elements of trade—intrastate, interstate and overseas. Yet, as Section 92 of the Constitution was interpreted by the Privy Council in 1936, the power to control interstate trade had entirely disappeared. Neither State nor Commonwealth Governments were able to govern this sphere. The crux of the issue as to whether or not a referendum was needed was the question, "Is there a gap in the Constitution? If the results achieved under the invalidated Act can be achieved by another method, then it can be said that there is no gap" ([51]).

It would appear that the proposed excise-bounty legislation, although it would have made possible a home-consumption price, would not have achieved the same results as did compulsory equalisation. Both schemes would have ensured the removal of the export surplus despite a more remunerative local market, but there were important differences. Equalisation placed each factory on exactly the same footing. Each received the same price for its produce. The system of paying a fixed bounty over and above a constantly fluctuating London price would be approximate equalisation only, and would still leave room for speculative practices which could be damaging (*e.g.*, could cause local shortages as under the levy-bounty system known as the Paterson Plan). The amount of the bounty could not be immediately and automatically

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**A man on an income of £400, with a large family might pay £5 per annum as tax on butter if excise were 6d. per lb., which would be equivalent to a tax of 6d. in the £. A single man on £1,000 per annum would probably only pay one-sixth of a penny in the £ on this basis.*

adjusted to achieve accurate equalisation beyond a certain point, since frequent alteration of the bounty would be itself inequitable, due to the different periods of maximum production in different States.

Furthermore, Equalisation was dependent on neither the Parliamentary Budget (as would be the case if subsidies were paid direct), or the amount consumed locally, (as would be the case if subsidies were paid from a tax on consumers). The latter disability of export subsidies was well illustrated by the Paterson Plan, viz., if the proportion of butter exported rises to a certain level, the burden which a more remunerative local market has to support may become too heavy, and export bounties may be reduced to the point where it no longer pays to export, so that the local market is flooded. (This did not occur under the Paterson Plan, but was one of the difficulties threatening the plan.) Under an Equalisation Scheme, all markets are equally profitable to the manufacturer, no matter how large the export surplus becomes in relation to domestic consumption.

These considerations probably played their part in the solution of the controversy, for the Federal Government finally decided to appeal to the people for the further constitutional powers necessary to validate the type of legislation in question. This decision received the full support of the Equalisation Committee and primary producers generally, as expressed through the Australian Wheatgrowers' Federation and the Primary Producers' Union. The Constitutional Referendum was held on 6th March, 1937, but the proposed amendment was defeated.

(B) Voluntary Equalisation.

(a) The Scheme since 1936.

Any serious danger of a collapse of the stabilization structure following following the referendum result was averted by the prompt announcement of the Directors of the Equalisation Committee that the structure could and would be maintained indefinitely by its remaining supports, namely, State Government assistance through State quota legislation, and voluntary action based on the agreements between manufacturers and the Company. Immediately after the James case decision had been announced, there had been a few cases where manufacturers, for their own protection, had given notices of termination of their agreements. However, the announcement of the Equalisation Committee, coupled with the loyalty of Butter and Cheese Associations throughout the four Eastern States, which represented about 99% of production, had a most reassuring effect, and resulted in the withdrawal of the notices of termination of the agreement.

The dried vine fruit and the dairying industries continued their plans on a voluntary basis, "invisibly backed by the powers of the States to withhold licences for new processing establishments" ([52]). The main difference was that the Commonwealth Government could no longer oblige manufacturers by legislation to take their proper share of the export market.

The Equalisation Scheme, at the outset, had aimed at holding local prices constant, but the industry continued to press for a higher domestic price, and the various adjustments made to the home-consumption prices of butter and cheese are summarised in the following table:—

TABLE 6.

Wholesale Prices of Butter and Cheese under Equalisation in the Four Eastern States,—1934-1948.

Date at which Price was Fixed.	Butter.		Cheese.	
	Per cwt.	Per lb.	Per cwt.	Per lb.
	s. d.	s. d.	s. d.	s. d.
May, 1934	140 0	1 3	74 8	0 8
January, 1935	.....	.....	79 4	0 8½
May, 1935	.....	.....	88 8	0 9½
June, 1937	149 4	1 4	93 4	0 10
June, 1938	158 8	1 5	98 0	0 10½
March, 1942	166 10	1 5⅞	112 0	1 0
December, 1947	192 6	1 8⅝	121 4	1 1
July, 1948	215 10	1 11⅛	130 8	1 2

In addition, there is a customary box charge of 2/6d. per cwt. for butter.

Prices from March, 1942, were fixed by the Commonwealth Prices Commissioner. Price control was transferred to the State Governments on 20th September, 1948, and no changes in the wholesale prices of butter and cheese have been made since. The prices ruling from July, 1948, in the above table apply to all States for cheese, and to all States with the exception of Western Australia, for butter. In Western Australia the wholesale price is fixed at 220/6d. per cwt. (1/11⅝d. per lb.).

Several attempts have been made since 1936 to upset Equalisation arrangements, but none have succeeded. The first attempt to cut butter prices, following the James case, was made on 26th August, 1936, when "Victorian butter was offered in Sydney at 133/- per cwt. (The home-consumption price was 140/- per cwt.) However, all persons approached in Sydney remained loyal to the plan." Several later attempts were made by manufacturers to sell at prices lower than the local price fixed by the Committee (though, of course, higher than the equalised price), but they met with difficulty in disposing of their produce and in most cases lost money on the venture. A certain amount of farm butter was marketed locally outside the Equalisation Scheme, thus getting the benefit of the home-consumption price without contributing to the cost. According to *"The Co-operator,"* a large quantity of cheese was being farm-made and sold at cut prices, not coming under equalisation ([54]). However, this practice was virtually eliminated after 1943 by the payment of a subsidy on factory butter and cheese through the Equalisation Committee, farm butter being excluded.

The Rural Reconstruction Commission was of the opinion that "the weakness of the present scheme is that it depends on the adherence of the factories to their agreements" ([55]). However, this statement needs considerable modification.

The position when export prices are higher than local prices, as is the case at present, is that no benefit would be gained by a factory breaking its agreement. Commonwealth control of exports could prevent the factory securing a greater share of the export market than it was allocated under Equalisation.

The position is different when local prices are higher than export prices. Leaving aside the question of loyalty to the industry, which would, nevertheless, be a powerful factor, there could be situations in which it would pay the factory in the short run to obtain more than its local quota by selling interstate, viz., where the local price, less transport expenses exceeded the equalised price. However, where a Government subsidy is added to the equalised price and distributed through the Equalisation Committee, as has been the case since 1943, there would be little likelihood that a factory would benefit financially after forfeiting the subsidy, paying marketing expenses and selling interstate.

From the outset of the scheme in 1934 until 1942, basic prices for equalisation purposes were determined monthly, but in that year manufacturers agreed to the substitution of equalisation periods based on seasons. The first seasonal period under the new plan was the months March to June (inclusive). In April, 1945, when prices were fixed under the long-term agreement with the United Kingdom, the Equalisation period was extended to twelve months.

(b) Casein Equalisation.

In May, 1946, the Commonwealth Government announced that the export of casein would only be permitted provided that (i) the casein to be exported was surplus to Australian requirements; and (ii) the manufacturer was a party to a suitable equalisation plan. The Commonwealth Dairy Produce Equalisation Committee Ltd., at the request of casein manufacturers, accordingly undertook the implementation of a plan to equalise returns realised from local and export sales of casein. Under the terms of the agreement to which all known manufacturers are signatories, a Casein Equalisation Advisory Committee was set up to consider matters relating to the operation of the Equalisation Scheme and to make recommendations in that regard to the Commonwealth Dairy Produce Equalisation Committee Ltd. The plan operated from 1st July, 1946.

The average rates realised under the scheme for sales of casein during the year ended June, 1947, were 77/- per cwt. on local sales and 142/4.61d. per cwt. on export sales, giving an equalised return of 89/8.413d. per cwt. on all sales. A levy at the rate of 1.2d. per cwt. was imposed on all sales during the year to cover costs of administration by the Commonwealth Dairy Produce Equalisation Committee Ltd. In 1947-48 local realisations were 85/4.5d. per cwt. and export realisations were 122/4.4d. per cwt., giving an equalised return of 91/8.4d. per cwt. Approximately 17% of equalisation sales were on the higher-priced export market and the levy for administrative costs was fixed at 2.4d. per cwt.

(c) Equalisation—Subsidy Arrangements, 1943-50.

When the Commonwealth Government guaranteed prices to producers commensurate with costs, subsidies were used to make up any deficiency between the equalisation rate (the estimated average return) and the amount necessary to pay manufacturers to enable them to pay farmers the guaranteed price. The subsidy is paid to factories through the Equalisation Committee. Taking the 1949-50 butter figures as an example, the Committee's estimate of the equalised value is 244/- per cwt. The Committee can make this estimate on the basis of the known local consumption price, the known overseas contract price, and the estimated quantities produced and locally consumed. Average returns per cwt. of butter and cheese are assessed, allowing for the Committee's operating costs. This estimate is given to the Commonwealth Government and it is then possible to estimate the subsidy required (50/- per cwt.) to bring the "Overall Return to Manufacturer" up to the level which enables the factory to meet its costs and pay the producer the guaranteed price based on farm cost (294/- per cwt.).

The following figures summarise equalisation-subsidy arrangements since 1943:

TABLE 7.—*Equalisation-Subsidy Rates,* 1943-50.

Year ended 30th June.	Equalisation Rate. (Per cwt.)		Subsidy Rate. (Per cwt.)		Rate of Overall Return to Manufacturers. (Per cwt.)	
	Butter.	Cheese.	Butter.	Cheese.	Butter.	Cheese.
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
1943	151 11·85	92 5·47	11 11·25	6 3·03	163 11·1	98 8·5
1944	152 11·87	94 10·37	37 5·07	17 8·13	190 4·94	112 6·5
1945	154 4·03	94 3·54	40 6·85	19 3·78	194 10·88	113 7·32
1946	171 3·26	101 1·27	33 4·06	17 11·61	204 7·32	119 0·88
1947	183 3·02	109 2·21	30 8·31	13 8·91	213 11·33	122 11·12
1948	210 1·88	119 9·31	35 4·12	19 7·59	245 6	139 4·9
1949 (*a*)	236 0	134 0	30 6	15 4·9	266 6	149 4·9
1950 (*a*)	244 0	136 0	50 0	30 6·5	294 0	166 6·5

(*a*) Not finalised. Excludes amounts paid into Stabilisation Fund.

(*Source*: From 1949 Report of the Commonwealth Dairy Produce Equalisation Committee.)

The Rate of "Overall Return to Manufacturers" is equal to calculated farm costs plus calculated costs to the factory not already charged against the Equalisation Fund and allowed for in the Equalised Price.* The factory cost figure for butter now being used (3d. per lb.) does not include these charges:

(1) Selling commissions on local and export sales. The local selling commission on butter is approximately ½d. per lb. and applies to about 90 per cent. of New South Wales output.

(2) Cold storage and other f.o.b. costs.

(3) Levies paid to the Australian Dairy Produce Board.

* Some other costs, such as the cost of the printing of butter and part of the cost of boxing the butter for local sale, have been covered in the past by special increases in the local price allowed. The cost of cream or milk transport to the factory, even when met by the manufacturer, is included in the farm production cost figure, and cannot be double-counted.

(d) The Results of Equalisation.

Tables 8 and 9 summarise the results of butter and cheese equalisation during its fifteen years of operation.

TABLE 8.

Butter Manufactured, and Sales and Values of Butter Taken into Account for Equalisation Purposes for the Fifteen (15) Years Ended 30th June, 1949.

Year.	Manufacture.	Local.			Interstate.		
		Quantity.	Rate Cwt.	Realisation.	Quantity.	Rate Cwt.	Realisation.
	Boxes.	Boxes.	s. d.	£ s. d.	Boxes.	s. d.	£ s. d.
1934–35	7,413,474	2,732,086	136 5	9,317,551 12 7	110,186	133 2	366,827 11 2
1935–36	6,726,658	2,893,630	136 5	9,868,483 19 7	189,306	130 0	615,244 10 0
1936–37	6,120,760	2,986,897	136 5	10,186,563 6 2	198,050	129 7	641,599 9 7
1937–38	6,695,290	3,033,592	146 3	11,091,570 15 0	243,716	138 1	841,327 18 10
1938–39	7,197,768	3,036,613	154 5·5	11,725,754 11 5	181,160	146 5·5	663,309 15 10
1939–40	7,542,540	3,106,147	154 5·25	11,992,774 17 5	195,607	147 7·25	721,796 8 11
1940–41	6,823,335	3,138,987	154 5·6	12,121,927 10 5	236,873	146 3	866,080 10 6
1941–42	5,835,556	3,181,401	156 10·05	12,474,044 0 1	387,638	146 9·49	1,422,545 7 4
1942–43	5,988,466	3,430,926	162 0·5	13,898,833 11 9	455,694	149 4·79	1,702,012 0 2
1943–44	5,464,834	3,448,199	161 9·24	13,945,363 2 11	219,306	151 0·53	828,124 5 3
1944–45	4,997,374	2,984,142	161 10·92	12,079,068 4 5	169,445	151 4·59	641,273 9 0
1945–46	5,381,984	2,685,908	161 8·53	10,858,483 17 4	162,336	150 6·77	611,049 12 11
1946–47	5,536,690	2,797,494	162 1·55	11,338,904 1 7	289,756	150 4·05	1,089,032 8 3
1947–48	6,297,095	2,967,916	178 1·89	13,218,935 18 0	190,823	174 8·75	833,559 11 3
1948–49	6,447,961	2,988,741			290,063		

Year.	Overseas.			Total.		Average Equalisation Value. Per Cwt.
	Quantity.	Rate Cwt.	Realisation.	Quantity.	Realisation.	
	Boxes.	s. d.	£ s. d.	Boxes.	£ s. d.	s. d.
1934–35	4,587,297	80 0	9,174,594 0 0	7,429,569	18,858,973 3 9	101 6
1935–36	3,619,332	101 6	9,184,054 19 0	6,702,268	19,667,783 8 7	117 5
1936–37	2,911,980	109 3	7,953,345 7 6	6,096,927	18,781,508 3 3	123 2
1937–38	3,411,240	127 9	10,894,647 15 0	6,688,548	22,827,546 8 10	136 6
1938–39	3,900,416	121 7·5	11,859,702 8 0	7,118,189	24,248,766 15 3	136 3·5
1939–40	4,367,305	132 8	14,483,798 11 6	7,669,059	27,198,369 17 10	141 10·25
1940–41	3,399,234	132 4·6	11,250,234 1 7	6,775,094	24,238,242 2 6	143 1·2
1941–42	2,337,561	129 8·81	7,581,542 18 1	5,906,600	21,478,132 5 6	145 5·42
1942–43	2,140,802	136 5·11	7,301,525 11 0	6,027,422	22,902,371 2 11	151 11·85
1943–44	1,809,931	136 5·97	6,176,264 19 10	5,477,436	20,949,752 8 0	152 11·87
1944–45	1,838,518	140 8·80	6,468,503 13 10	4,992,105	19,261,497 10 3	154 4·03
1945–46	2,521,633	182 5·53	11,502,488 15 4	5,369,877	22,992,666 11 10	171 3·26
1946–47	2,409,937	210 3·81	12,671,298 2 4	5,497,187	25,169,155 15 9	183 1·7
1947–48	3,256,198	243 5·59	19,819,355 16 2	6,414,937	33,708,633 12 7	210 2·26
1948–49	3,168,952			6,447,756	38,041,760 8 0	236 0

NOTES.

1. Figures for the years 1934–35 to 1947–48 are final; those for 1948–49 are of an interim character only.

2. The discrepancy in each of the years 1945–46 to 1947–48 inclusive, as between the total realisation established by the addition of the returns from ghe different markets and that shown in the table is accounted for by the explanations furnished in this regard in the body of the report in relation to the years 1946–47 and 1947–48.

3. Up to March, 1946, the figures covered the States of Queensland, New South Wales, Victoria and Tasmania. From April, 1946 onwards, they extend also to South and Western Australia, thus covering all States of the Commonealth.

4. Final equalisation rates represent returns to manufacturers after deduction of all allowable charges, i.e., commission, export, costs associated with transfers to meet Inter- and Intrastate shortages, storage for winter requirements and administration. The final average equalisation rate, therefore, represents the net return to manufacturers at agents' floors, Australian ports of shipment, or other recognised centres of distribution, and only local transport charges require to be deducted to establish the net return to manufacturers.

(*Source:* 1948–49 Report of the Commonwealth Dairy Produce Equalisation Committee Ltd.)

TABLE 9.

Cheese Manufactured, and Sales and Values of Cheese Taken into Account for Equalisation Purposes for the Fifteen (15) Years Ended 30th June, 1949.

Year.	Manufacture.	Local and Interstate.			Process.		
		Quantity.	Rate.	Realisation.	Quantity.	Rate.	Realisation.
	lb.	lb.	d.	£ s. d.	lb.	d.	£ s. d.
1934–35	36,202,592	18,921,618	8·046	634,361 1 7			
1935–36	36,574,130	17,909,609	9·135	681,666 12 8	5,355,218	7·95	177,318 9 4
1936–37	42,669,532	18,710,991	9·129	711,740 10 3	8,454,281	8·18	288,004 5 6
1937–38	53,889,986	16,179,816	9·681	652,668 8 9	8,436,815	8·49	298,364 9 1
1938–39	63,378,527	15,980,256	10·148	675,693 19 11	8,249,324	8·69	298,626 18 9
1939–40	67,683,214	15,731,689	10·099	661,964 19 8	9,847,220	8·73	358,192 12 9
1940–41	58,622,987	15,526,748	9·970	645,025 8 4	7,945,279	8·73	289,009 11 3
1941–42	64,414,401	19,698,828	10·387	852,577 16 6	13,052,400	9·22	501,436 18 9
1942–43	78,085,047	27,040,332	11·254	1,267,949 1 10	15,026,782	10·164	636,366 17 0
1943–44	78,136,244	33,267,694	11·143	1,544,555 18 1	18,123,180	10·169	767,871 1 9
1944–45	75,400,397	31,199,949	11·167	1,451,710 17 0	10,207,350	10·177	432,849 3 8
1945–46	89,650,395	30,526,694	11·144	1,417,395 10 2	27,652,921	10·179	1,172,796 10 2
1946–47	92,101,343	26,778,380	11·136	1,242,469 17 2	11,847,436	10·184	502,708 15 11
1947–48	92,513,620	49,400,661	11·432	2,353,165 8 8			
1948–49	96,955,407	41,648,257					

Year.	Overseas.			Totals.		Average Equalisation Value Per lb.
	Quantity.	Rate.	Realisation.	Quantity.	Realisation.	
	lb.	d.	£ s. d.	lb.	£ s. d.	d.
1934–35	16,994,361	3·80	269,129 7 8	35,915,979	903,490 9 3	6·037
1935–36	13,302,344	5·21	288,656 15 8	36,567,171	1,147,641 17 8	7·532
1936–37	13,741,267	6·21	355,478 15 5	40,906,539	1,355,223 11 2	7·951
1937–38	27,548,731	6·95	797,834 18 0	52,165,362	1,748,867 15 10	8·046
1938–39	36,220,772	6·35	958,843 8 4	60,450,352	1,933,164 7 0	7·675
1939–40	45,223,896	7·37	1,389,034 7 7	70,802,805	2,409,192 0 0	8·166
1940–41	33,871,116	7·43	1,048,071 15 5	57,343,143	1,982,106 15 0	8·296
1941–42	30,509,692	8·237	1,047,069 8 5	63,260,920	2,401,084 3 8	9·109
1942–43	37,365,988	8·827	1,374,321 19 7	79,433,102	3,278,637 18 5	9·906
1943–44	25,681,662	8·894	951,671 1 0	77,072,536	3,264,098 0 10	10·164
1944–45	32,723,320	9·082	1,238,353 8 10	74,130,619	3,120,477 7 0	10·103
1945–46	28,184,896	11·027	1,295,011 1 6	86,364,511	3,898,198 10 0	10·833
1946–47	48,459,261	12·475	2,518,934 9 0	87,085,077	4,244,778 19 11	11·698
1947–48	46,838,311	14·263	2,783,506 15 7	96,238,972	5,146,047 0 9	12·833
1948–49	52,875,810			94,524,067	5,654,564 14 4	14·357

NOTES.

Notes 1, 2 and 4 to Table 8 apply also to Table 9.

Up to December, 1946, the figures covered the States of Queensland, New South Wales, Victoria South Australia and Tasmania. From January, 1947, onwards, they extend also to Western Australia thus covering all States of the Commonweath.

(*Source*: 1948–49 Report of the Commonwealth Dairy Produce Equalisation Committee Ltd.)

It can be seen that there has been a continuous rise in the average equalisation value in almost every year since the inception of the scheme. This has been mainly due to increases in local and overseas prices, but it is also linked with the fact that the proportion of butter consumed in Australia increased steadily between 1934 and 1945, when the local market was the higher, and decreased between 1945 and 1949, in which period the export market was the more remunerative.

(e) General Benefits of Equalisation.

One of the long-standing problems that had engaged the attention of the Dairy Produce Export Control Board (later the Australian Dairy Produce Board), formed in 1924, was the irregularity of butter shipments. It was considered that a continuous supply was necessary to

strengthen the marketing position of Australian butter in the United Kingdom, and the Board decided to attempt to regulate shipments. One of the difficulties was that the exporting factories were being asked to bear the whole of the costs involved in withholding the butter and spreading shipments evenly. There was consequently a very decided incentive to weaken local values to the extent of the extra costs. Furthermore, as the export surplus was large and the extra costs were uncertain, local values also suffered from the standpoint of stability. However, from its inception in 1934 the Equalisation Committee has paid special regard in the equalisation to extra costs incurred by manufacturers in withholding butter. Through the Committee's "Withholding Scheme" the costs involved in cold storage have been spread over the factories as a whole, and local values have remained unimpaired.

A cognate advantage of the Equalisation Scheme, which also springs from the fact that Equalisation enables the risks and costs of marketing to be spread over the entire industry, is that it facilitates the exploitation of new markets. In the search for new export markets, especially when a "buyers' market" obtains in world agriculture, there is often considerable risk of heavy loss for the enterprising exporter, which sometimes means that nobody is willing to move first. By providing machinery to exploit new markets without risk of loss to any particular factory, Equalisation removes one of the impediments to national marketing initiative and enterprise.

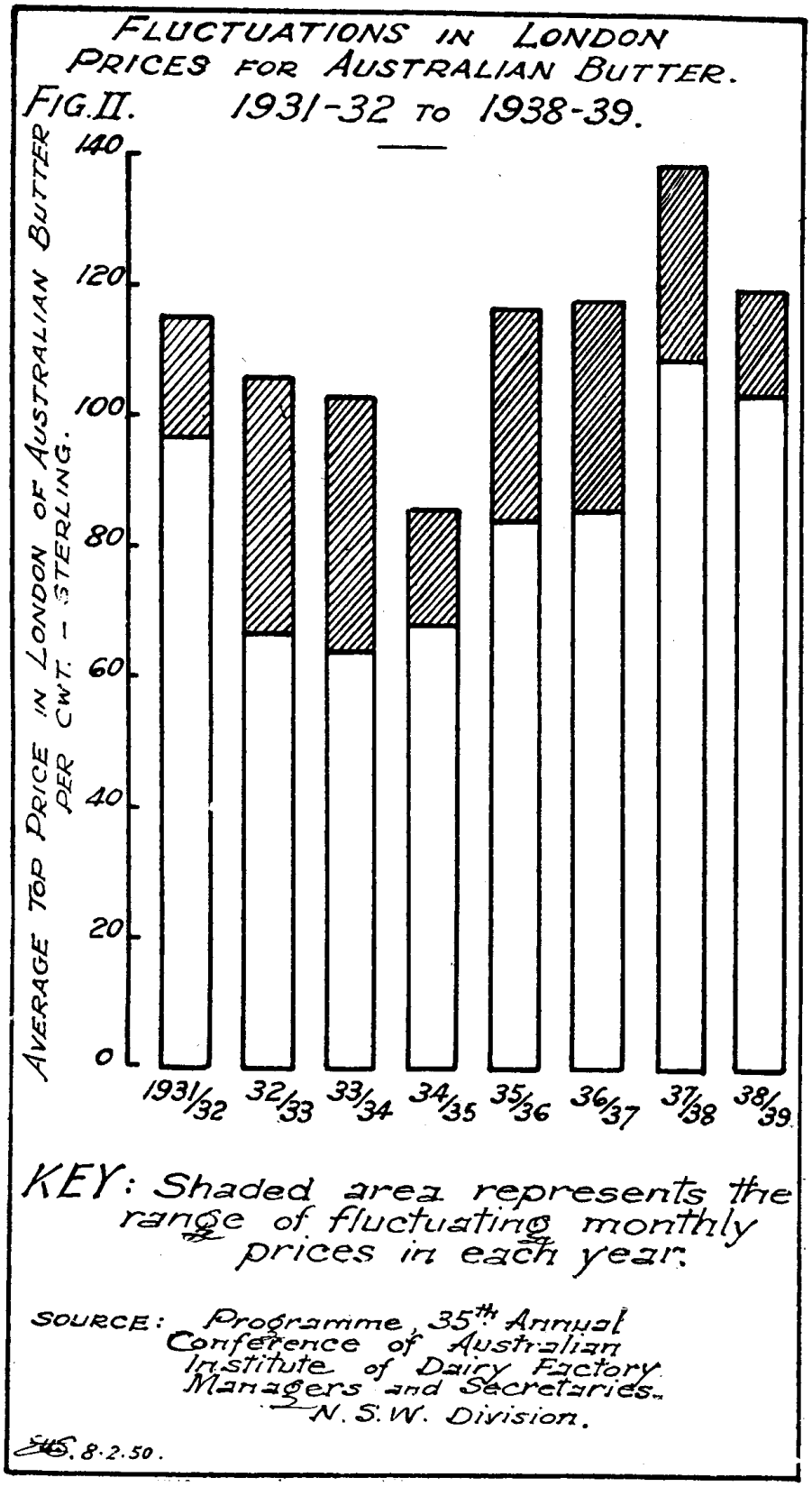
The equitable spreading of marketing costs also facilitates winter storage of butter, necessary because of the seasonal decline in production. The heavy expenditure involved in moving butter interstate to meet shortages is consequently reduced.

Another benefit of Equalisation is that it eliminates the situation where wide, short-term fluctuations in prices make themselves felt in the producer's income. Besides averaging returns to the farmer through time, it averages them through markets, so that the equalised return is considerably more stable than the component prices. Tables 3 and 4 show—

(*a*) that over the past three decades the annual average London butter price has varied on a number of occasions by more than 25 per cent. in successive years. Equalisation does not greatly reduce this variation except when the home market is moving in the opposite direction to the overseas market;

(*b*) that monthly variations in local prices on a free market, and in London prices, have been even greater, and that in one of the years listed in Table 4 the price variation was more than 80 per cent. of the average for the year. Under the present system of annual Equalisation, only one price is paid to manufacturers throughout the year. Apart from the question as to whether or not the price received is at a satisfactory level, Equalisation does contribute to a sense of security for dairy farmers.

The degree of fluctuation in the open London market from month to month is illustrated in the following graph:


FLUCTUATIONS IN LONDON PRICES FOR AUSTRALIAN BUTTER.
FIG. II. 1931-32 TO 1938-39.
AVERAGE TOP PRICE IN LONDON OF AUSTRALIAN BUTTER PER CWT. - STERLING.
140
120
100
80
60
40
20
0
1931/32
32/33
33/34
34/35
35/36
36/37
37/38
38/39
KEY: Shaded area represents the range of fluctuating monthly prices in each year.
SOURCE: Programme, 35th Annual Conference of Australian Institute of Dairy Factory Managers and Secretaries. N.S.W. Division.
8.2.50.

Another fact that comes under the heading of general benefits from Equalisation is that the system eliminates the indiscriminate and uneconomic interstate transfers which are common on a free market where each factory is seeking the highest Australian price. By minimising the necessary movement of dairy produce interstate, Equalisation reduces the industry's marketing expenses. Furthermore, the placing of all factories on a similar footing, which is achieved by Equalisation, is to the advantage of the most efficient producers.

The Equalisation Scheme was particularly useful when wartime developments necessitated an expansion of Government supervision over marketing. The marketing of dairy produce was so highly organized that little Government intervention was needed, whereas in other industries entirely new machinery had to be hastily erected. Equalisation provided an ideal method by which the Government could distribute the dairying subsidy, and over £40 million has been distributed to the industry through this medium since 1943, with a minimum of administrative provision. The Equalisation Committee was able to spread the results of war-time developments equitably throughout the industry, both advantages and disadvantages.

With South Australia and Western Australia operating independent Equalisation Schemes for butter, a difficulty arose in April, 1946, when the Commonwealth Government announced that subsidies would be applied uniformly throughout Australia and that the subsidy rates would be determined on equalisation values under the Commonwealth Equalisation Scheme. This would have meant that the figures of the above two States would not have been included in the figures upon which the subsidy was to be based. However, the Equalisation Committee approached the dairying organizations of these two States and they agreed to join the Commonwealth Scheme.

The result was a complete all-Australian Equalisation Scheme, with each farm and factory linked, but independent and competing. Each factory competes for milk supplies but acts in unison on the selling side, with one single price at every port. Not every factory pays the same price to suppliers for butter-fat, since the size of the factory, the geographical conditions and transport conditions vary widely, but considerable uniformity has been achieved in this respect. The 1946 amalgamation enabled the Committee to act for the Australian dairying industry with greater authority, as was shown by the Commonwealth Government's acceptance of the figures of the organization's Cost Committee as authoritative. The scheme now embraces all registered manufacturers, co-operative and proprietary. In the words of the Committee's General Manager, "It is doubtful whether any such example of the voluntary acceptance of the pooling principle on a nation-wide basis is to be found in any other part of the world" ([56]).

(f) Direct Financial Benefits of Equalisation.

The dairyman has benefited very considerably from the fact that the Equalisation Scheme, until the 1945-46 season, set up a home-consumption price. In 1945-46, due to the increased prices granted for dairy produce under the United Kingdom contract, there was a reversal of

the position which had applied since the 'twenties. During that period, the local market had been the more remunerative, and through such schemes as the Paterson Plan, Voluntary Equalisation and Compulsory Equalisation, had been used to support the export market. The opposite now applies. The comparative realisations of local and export markets since the inception of the Equalisation Scheme are shown in Table 10 as indices, together with the two factors that govern the level of the equalisation value,—the absolute prices in the local and export markets and the proportion of produce sold in each.

TABLE 10.

The Home-Consumption Price for Butter under Equalisation.

Year.	Overseas Sales as Per cent. of Total Sales.(*a*)	Local Sales as Per cent. of Total Sales.(*a*)	Realisations.			Realisation Indices.		
			Average Overseas Realization. Per cwt.	Average Local (*b*) Realization. Per cwt.	Equalised Return. Per cwt.	Overseas.	Local. (*b*)	Equalised.
			s. d.	s. d.	s. d.			
1934–35	61·7	38·3	80 0	136 4	101 6	100	170	127
1935–36	54·0	46·0	101 6	136 0	117 5	100	134	116
1936–37	47·8	52·2	109 3	136 0	123 2	100	125	113
1937–38	51·0	49·0	127 9	145 7	136 6	100	114	107
1938–39	54·8	45·2	121 7·5	154 0	136 3·5	100	126	112
1939–40	56·9	43·1	132 8	154 0	141 10·2	100	116	107
1940–41	50·2	49·8	132 4·6	153 9	143 1·2	100	117	108
1941–42	39·6	60·4	129 8·8	155 9	145 5·4	100	120	112
1942–43	35·5	64·5	136 5·1	160 6	151 11·8	100	118	112
1943–44	33·0	67·0	136 6	161 1	152 11·9	100	118	113
1944–45	36·8	63·2	140 8·8	161 4	154 4	100	114	109
1945–46	46·9	53·1	182 5·5	161 0	171 3·3	113	100	106
1946–47	43·8	56·2	210 3·8	161 0	183 1·7	130	100	114
1947–48	50·8	49·2	243 5·6	178 0	210 2·3	136	100	118
1948–49	49·1	50·9	.....	.....	236 (*c*)	...	...	...
1949–50	.....	.....	.....	.....	244 (*c*)	...	...	...

(*a*) These figures apply to sales through the Equalisation Committee as published in the Committee's Annual Reports.

(*b*) This local or home-consumption price is a weighted average of the average local intra-state and average interstate realisations.

(*c*) Provisional.

The indices give a rough measure of the extent to which the scheme raised returns to the butter factories, *e.g.*, in 1934-35, when the Index of Equalised Realisations was 127, the scheme raised returns by approximately 27 per cent. A more accurate estimate of the financial benefits of Equalisation is obtained from Table 11, which records the extent to which equalised value exceeded export parity in the various years from 1934-35 to 1943-44.

TABLE 11.

Comparison of Equalisation and Parity Values.

Year.	Butter.				
	Production (Boxes).	Average Equalisation Value. Per cwt.	Average Parity Value. Per cwt.	Net Benefit. Per cwt.	Total Benefit. (A) £1,000.
		s. d.	s. d.	s. d.	
1934–35	7,413,474	101 6	80 8	20 10	3,707
1935–36	6,726,658	117 5	103 8.5	13 8.5	2,305
1936–37	6,120,760	123 2	111 10	11 4	1,734
1937–38	6,695,290	136 6	130 0.5	6 5.5	1,081
1938–39	7,197,768	136 3.5	123 8	12 7.5	2,272
1939–40	7,542,540	141 10.25	131 4.25	10 6	1,980
1940–41	6,823,335	143 1.2	132 1.6	10 11.6	1,722
1941–42	5,835,556	145 5.42	133 3	12 2.42	1,758
1942–43	5,988,466	151 11.85	138 5	13 6.85	2,032
1943–44	5,464,834	152 9.73	138 5	14 4.73	1,967
		Ten years ended 1943–44		... ...	20,558

Year.	Cheese.				
	Production. (lb.)	Average Equalisation Value. Per lb.	Average Parity Value. Per lb.	Net Benefit. Per lb.	Total Benefit. (A) £1,000.
		(pence.)	(pence.)	(pence.)	
1934–35	36,202,592	6.037	4.076	1.961	296
1935–36	36,574,130	7.532	5'239	2.293	349
1936–37	42,669,532	7,951	6.483	1.468	261
1937–38	53,889,986	8.046	7.125	.921	207
1938–39	63,378,527	7.675	6.537	1.138	301
1939–40	67,683,214	8.166	7.264	.902	254
1940–41	58,622,987	8.296	7.428	.868	212
1941–42	64,414,401	9.109	8.158	.951	255
1942–43	78,085,047	9.906	8.537	1.369	445
1943–44	78,136,244	10.119	8.537	1.582	515
		Ten years ended 1943–44		... ...	3,095

(*Source*: Equalisation Committee Report, 1944.)

Since 1945 the net benefit calculated on this basis is a negative figure, since Equalisation has kept the equalised value below overseas realisations. These estimates of the financial benefits of the home-consumption price are subject to the qualifications discussed under 4 (*d*)—"The Benefits of the Paterson Plan."

The administrative costs per cwt. per annum of the Commonwealth Dairy Produce Equalisation Committee Limited have varied between 1.11d. per cwt. in 1934-35 and 2.09d. per cwt. in 1948-49.

6. THE LEGAL BACKGROUND TO CONTROLLED MARKETING.

(a) The Constitution.

Since the inception of controlled marketing in such forms as home-consumption price schemes, compulsory pooling, equalisation, etc., those who have framed the necessary Acts of Parliament have had to devote considerable attention to the constitutional as well as the economic aspects of the question. Whereas other nations, such as New Zealand, have faced a relatively straight-forward task in drafting legislation of this type, Australia has, in this field, discovered some of the difficulties of Federal Government under a written Constitution.

When the Constitution was drafted in 1901, specific powers were granted the Federal Parliament through that instrument, some of these powers being withdrawn from the State Parliaments. The States retained all powers possessed before Federation which were not thus transferred. In the field of marketing the Commonwealth received its powers under section 51 of the Constitution. Section 51 (i) empowers the Federal Government "to make laws with respect to trade, commerce and intercourse with other countries and among the States."

Section 51 (xxix)—"The External Affairs Power," enables the Federal Government to enter into international agreements for the marketing of commodities and to implement the agreements by such marketing legislation as may be necessary, such legislation to override any conflicting State legislation. This power, however, is sharply de-limited. "The Commonwealth only possesses the power to implement the treaty and not to regulate the subject matter generally" ([57]).

Each of the above powers, however, is subject to the other provisions of the Constitution, and as a consequence is considerably reduced, particularly by section 92 of the Constitution, which provides that "on the imposition of uniform duties of customs, trade, commerce and intercourse among the States, whether by means of internal carriage or ocean navigation, shall be absolutely free." No commonwealth marketing legislation can validly restrict interstate trade.

The Commonwealth has no intra-state marketing powers, except those that may be necessary for the implementing of a trade agreement. The State Governments possess intra-state powers with respect to marketing, but, like the Federal Government, are bound by section 92 of the Constitution. Since control of interstate marketing is essential to most national marketing schemes* it follows that, generally speaking, a national marketing plan can be legally effective in two ways:

(1) Making it to the advantage of the producer to voluntarily market the whole of the commodity through a statutory board which then is in a position to control interstate marketing. Federal legislation may be used to control overseas marketing, and complementary State legislation to prevent intra-state marketing except through a board, or subject to a board's regulations.

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* Where local returns are lower than overseas returns, uncontrolled interstate movement of the commodity would not necessarily be an impediment to a marketing plan. The main difficulty with interstate trade arises when all producers are competing for a more remunerative local market, and resort is made to price-cutting.

(2) Voluntary co-operation between producers, who agree to adhere to a marketing plan, and sign such an agreement with a body set up by the industry to administer the plan. (The former method is at present used for the marketing of wheat and the latter for the marketing of dairy produce.)

However, there is no general rule of validity, and each case must be judged on its merits. There are so many undecided points and differing interpretations in the present position that it is difficult to lay down general principles which would apply in every case.

During the 1939-1945 war, the position was somewhat simplified by the Commonwealth Government's assuming wider powers over marketing under the National Security Act. Under the "Defence Power" of the Constitution the Commonwealth established various marketing boards and committees to regulate marketing.

Australian marketing legislation falls into three categories:

(b) Commonwealth Legislation.

Firstly, there is marketing legislation passed by the Commonwealth Government acting alone, concerned with exports. This legislation has aimed at the preservation of our overseas reputation and goodwill by means of regulations controlling the quality, packing, etc., of exports, *e.g.,* Export Control Boards were set up in 1923 by Commonwealth legislation to assist exporters of various commodities. The first important legislation of this type was the Commonwealth Commerce Act of 1905. Under this Act it was laid down that true trade descriptions must be marked on all produce for export and official inspection ensured the maintenance of purity and quality. Upon the request of the exporter goods were certificated by the inspector.

(c) State Legislation.

Secondly, there is marketing legislation passed by the State Governments. A great deal of this legislation has aimed at establishing a home-consumption price by collaboration with other States. Statutory marketing boards have been set up in some cases to achieve this purpose by the provision that the whole of the commodity produced within the State shall be marketed through the Board. Here the States have encountered constitutional difficulties concerning section 92, which provides that trade and commerce between the States shall be "absolutely free."

A home-consumption price in excess of the ruling export price has been achieved in this way by limiting the amount of produce placed on the Australian market, forcing the surplus into export markets and sharing the total proceeds amongst the producers.* Obviously no producer would send his goods overseas in such circumstances if he served his own immediate advantage. He would send his produce interstate and reap the benefit of the marketing scheme (viz., the home-consumption price), without paying his share of the cost (viz., the obligation to market a certain amount of his produce abroad and preserve the local market). One remedy in this case is the pooling of the commodity for marketing.

* Sometimes it is also necessary to impose a duty on imports to preserve the high local price. In such cases the States are hindered by the fact that they cannot impose duties, and must call on the Commonwealth for assistance.

The constitutional difficulty to which reference is here made is illustrated by the Peanut Board *v.* Rockhampton Harbour Trust case in 1933 (48 CLR 266). The High Court followed the ruling in the James *v.* Cowan case (1932) and declared invalid a Queensland law which set up a compulsory marketing scheme by which all producers of peanuts were required to deliver their produce to the Queensland Peanut Board. This legislation was not specifically a restriction on interstate trade, but on all trade, intra-state, interstate and foreign, and was invalidated as contravening section 92. The principle followed was that the absence of specific discrimination against interstate trade did not necessarily avoid section 92. This principle has been confirmed by the Privy Council as recently as the Banking Case (Privy Council appeal No. 55 of 1948):—

> "It is not relevant that the prohibition affects the intra-state transactions of a private bank as well as its interstate transactions: so also in the James cases there was no discrimination: his fruit, for whatever market destined, was liable to be the subject of a 'determination'" ([58]).

A further judicial interpretation of section 92 in its application to State marketing control was given by the High Court in 1939 in the Milk Case (70 CLR 1), and this view conflicts with that expressed in the Peanut Board Case.

CHEESE CURD BEING PLACED INTO HOOPS PRIOR TO PRESSING.

This photograph of one of the processes of cheese making reveals how the cheese obtains its familiar shape. In previous stages the milk solids, principally casein, have been solidified and then cut into small cubes by two sets of wires running horizontally and vertically. In the hooping process illustrated above the curd is placed into hoops previously prepared with cheese cloth. It is then pressed and removed after twenty-four hours, to mature under controlled temperature and humidity conditions for periods varying from four to twelve months.

During maturation or "curing" the cheeses must be turned frequently to retain their shape and promote even maturing.

In 1939 the High Court of Australia ordered that the Metropolitan Cream Company, of Waverley, Sydney, should be restrained from selling or otherwise dealing with milk or cream supplied to it for consumption or use within the Sydney metropolitan milk distributing district, without the consent of the Milk Board of New South Wales. This company had been prosecuted by the Board (set up by State legislation) for selling a quantity of 600 gallons of cream sent weekly from Victoria to Sydney. The New South Wales Supreme Court had ordered the case to be heard by the High Court because section 92 was involved.

Sir John Latham then gave his opinion of the effect of section 92 on State marketing legislation as follows:—

> "In my opinion, in spite of what might appear to be a contrary view expressed in the comment upon the Peanut Board case, which I have quoted, the view of their Lordships of the Privy Council was that a State Parliament could enact and provide for the administration of a compulsory marketing scheme so long as it was not directed against interstate trade and was not merely a prohibition as distinct from a regulation of such trade."

Dr. H. V. Evatt concludes that the "decision of the High Court in the Milk Board case shows clearly that an act passed for the purpose of stabilising and preserving the industry by setting up an efficient and representative selling agency in order to dispose of the pooled product of the industry, will not now be held to infringe section 92" ([59]).

(d) The Effect of the Banking Case on Organized Marketing.

Fortunately, the attitude of the Privy Council to Sir John Latham's interpretation has been given in the recent Banking appeal. Quoting from the Judgment in that case:

> "Difficult as the application of these general propositions must be in the infinite variety of situations that in peace or in war confront a nation, it appears to their Lordships that this further guidance may be given. In the recent case of Australian National Airways Proprietary Limited *v.* The Commonwealth, 71 CLR 29, the learned Chief Justice used these words: 'I venture to repeat what I said in the former case (viz., the "Milk Case", 70 CLR 1): One proposition which I regard as established is that simple legislative prohibition (Federal or State), as distinct from regulation, of interstate trade and commerce is invalid. Further a law which is "directed against" interstate trade and commerce is invalid. Such a law does not regulate such trade, it merely prevents it. But a law prescribing rules as to the manner in which trade (including transport) is to be conducted is not a mere prohibition and may be valid in its application to interstate trade, notwithstanding section 92.' With this statement, which both repeats the general proposition and precisely states that simple prohibition is not regulation, their Lordships agree . . . Yet about this, as about every other proposition in this field, a reservation must be made. For their Lordships do not intend to lay it down that in no circumstances could the exclusion of competition so as to create a monopoly, either in a State or Commonwealth agency or in some other body, be justified. Every case must be judged on its own facts and in its own setting of time and circumstance, and it may be that in

> regard to some economic activities and at some stage of social development, it might be maintained that prohibition with a view to State monopoly was the only practical and reasonable manner of regulation, and that interstate trade, commerce and intercourse thus prohibited and thus monopolised, remained absolutely free."

Although the Privy Council did not give a precise indication of its future attitude by attempting the arduous task of defining the difference between "regulation of trade" and "prohibition of trade", the judgment does reveal the presence of a "loose end" by which the effect of section 92 may be avoided in some cases.

It will be noticed, however, that the quotation from Sir John Latham's judgment, as well as distinguishing between regulation and prohibition, also put forward as a basis for judgment the question as to whether or not the "compulsory marketing scheme . . . was directed against interstate trade"—*i.e.*, the question of the *intention* of the regulation is raised. On this point also we have the recent guidance of the Bank Case:

> "But, in whatever sense the word 'object' or 'intention' may be used in reference to a Minister exercising a statutory power in relation to an Act of Parliament, it can be ascertained in one way only, which can best be stated in the words of Lord Watson in Salomon's case 1897 A.C. 22: 'In a Court of law or equity what the Legislature intended to be done or not to be done can only be legitimately ascertained from that which it has chosen to enact either in express words or by reasonable and necessary implication.' The same idea is felicitously expressed in an opinion of the English Law officers, Sir Roundell Palmer and Sir Robert Collier, cited by Isaacs, *J.*, in James *v.* Cowan, 43 CLR 386 at 409: 'It must be presumed that a legislative body intends that which is the necessary effect of its enactments: the object, the purpose, and the intention of the enactment is the same'." (**)

In other words, if a marketing Act does in effect directly restrict interstate trade in a commodity, then that is presumed to be its object and intention. Thus this loop-hole seems to be definitely closed to framers of marketing legislation.

The effect of the Peanut Board case on organized marketing has already been mentioned. However, this case was important in another respect, in that Mr. Justice Evatt dissented from the ruling on the grounds that restriction of interstate trade was "incidental" to the legislation concerned. Although the Privy Council has laid it down that the intention and purpose of the legislation is irrelevant, the principle of distinguishing between a restriction of trade that is remote and incidental and one that is direct seems to have been accepted by the Privy Council in the Banking Case:

> "In this labyrinth there is no golden thread. But it seems that two general propositions may be accepted: (1) that regulation of trade, commerce and intercourse among the States is compatible with its absolute freedom and (2) that section 92 is violated only when a legislative or executive act operates to restrict such trade, commerce and intercourse directly and immediately as distinct from creating some indirect or consequential impediment which may fairly be regarded as remote. However, their Lordships will not attempt to define this boundary."

Dr. H. V. Evatt, in his booklet, "Notes on the Fourteen Powers and the Safeguards," sums up the position as follows:

> "Attention must be given in every case to the real object and substance of what is being done. If an organized marketing scheme is not directed against interstate commercial transactions as such, but is in substance directed towards the preservation of standards of purity and quality, or the maintenance of adequate supplies for areas in which special considerations apply, or the preservation of an industry, the mere fact that interstate transactions are controlled will not invalidate it" ([61]).

As mentioned previously, a home-consumption price for a commodity which is also exported involves limiting the amount of the commodity placed on the local market. The dried vine fruit industry, which was the first to apply this scheme, overcame this difficulty by imposing quotas on producers; *i.e.*, a certain percentage of production was to be marketed locally and a certain percentage marketed overseas. However, the High Court held, in James *v.* South Australia (1927), that this direct quota system infringed the Constitution, State legislation being subject to section 92.

There remained an indirect method by which the States could enforce a quota system, viz., expropriation of the product by the State Government. Acts had been passed by four States prohibiting the local marketing of more than a certain quota of dried fruits by any grower, and these Acts had also empowered the acquisition of crops where necessary. However, in James *v.* Cowan, 1932 (43 CLR 386) the High Court held that the State Marketing Boards had no power of acquisition and the Privy Council, in James *v.* The Commonwealth, corroborated this by indicating that where compulsory acquisition is wholly or partially directed against interstate trade it contravenes section 92. This state of affairs led to complementary State and Federal legislation to fill the gap in the States' powers.

(e) Complementary Legislation—State and Commonwealth.

Between 1920 and 1936, it was believed that the Commonwealth was not bound by the provisions of section 92. Before the McArthur case in 1920 (McArthur *v.* State of Queensland, 28 CLR 530) it had been held that both State and Commonwealth were subject to section 92.* The McArthur case introduced a new conception. To quote the remarks of the Privy Council in their judgment on the James case:

> "The question there was not limited to the question of freedom from restriction or burden or impost because of or in respect of actual or prospective passing from State to State as in the past. The freedom claimed and admitted was freedom from all governmental control extending over the whole of any transaction which is treated as having the characteristic of interstate commerce. This is something which goes beyond the mere act of transportation over the territorial frontier."

Briefly, the argument in the McArthur case ran along these lines: Trade and commerce mean the same thing in section 92 as in section 51 (i): the latter section empowers the Commonwealth to legislate on

*Cases illustrating this are: Wheat Case, 20 CLR 54; Foggitt Jones & Co. *v.* State of New South Wales, 21 CLR 357; Fox *v.* Robbins, 8 CLR 115; Duncan *v.* Queensland, 22 CLR 556.

interstate trade and commerce: section 92 enacts that interstate trade and commerce is to be absolutely free; "absolutely free" means absolutely free from all governmental interference and control, whether legislative or executive; hence, it was said, there arises a direct and complete antinomy. The solution adopted was not that section 92 cancels section 51 (i). Instead, it was concluded that section 51 (i) overrides section 92 so that the Commonwealth is unaffected by section 92, though section 51 (i) is prefaced by the words, "subject to the Constitution," of which section 92 is part, and despite the fact that the provision for absolute freedom of interstate trade would obviously come to nothing if the Commonwealth were unaffected by section 92. The conclusion of the McArthur case was the corollary of a new construction placed upon section 92.

With State legislation crippled by the two James cases of 1927 and 1932, the Commonwealth was asked to step in. The aim of limiting the amount of a particular product placed on the local market could then be achieved by State legislation limiting the amount to be sold within the State, and Federal legislation limiting the amount of interstate trade. This solution, however, was successfully challenged in the celebrated case, James (Tasmania and Western Australia Intervening) *v.* The Commonwealth (New South Wales, Victoria and Queensland Intervening), heard by the Privy Council in 1936.

(f) The James Case.

The appellant in the case, Frederick Alexander James, was a grower and processor of dried fruits in South Australia, whose products had been for several years sold in various States. In the action he claimed damages for the seizure by the Commonwealth of 70 cases of dried fruits consigned to Sydney. These had been seized because James had not complied with Commonwealth regulations—the Dried Fruit (Interstate Trade) Regulations—which prescribed that a certain quota of dried fruits (60 per cent. to 90 per cent., depending on the type of fruit) should be exported overseas. James had refused to apply for a license to send his fruit interstate, such license being issued subject to the conditions just mentioned. James lost the case in the High Court, which could not hold that the Commonwealth was bound by section 92 without departing from a previous decision given in the High Court (McArthur case), and he appealed to the Privy Council, supported by the States of Western Australia and Tasmania.

The Privy Council's judgment in part overruled the McArthur case. The argument advanced in that case for freeing the Commonwealth from section 92 was based on "direct antinomy" between sections 51 (i) and 92. However, the Privy Council held, in answer to this, that the question must be determined on the words used (in the Constitution) "read, not in vacuo, but as occurring in a single complex instrument in which one part may throw light upon another."

In its judgment the Privy Council rejected the definition of "free trade" adopted in the McArthur case (viz., "free from every sort of impediment or control by any organ of government, legislative or executive, to which section 92 is addressed, with respect to trade and commerce"). The Privy Council pointed out that every step in the series of operations which constitute the particular transaction is an act of trade, and control under the State law of any of these steps must

be an interference with freedom of trade. Thus the necessity arises of avoiding the absurd result of there being in every State a class of dealings and acts entirely immune from the general law of the State.

The definition adopted was that free trade means "freedom at the frontier." Adopting this definition would avoid the antinomy. "Trade and commerce" means the same thing in section 92 as in section 51 (i) but does not cover the same area, because section 92 is limited to a narrower context by the word "free".

The Privy Council reversed the High Court's decision, it would seem, with some reluctance. "The result is that in their Lordship's judgment the Commonwealth should be held to have failed in its attempt by the method adopted under the Act in question to control prices and establish a marketing system, even though the Commonwealth Government is satisfied that such a policy is in the best interests of the Australian people. Such a result cannot fail to cause regrets, but these inconveniences are likely to flow from a written Constitution."

In commenting on the case, one authority says:

> "This case is now the starting point for all decisions on Constitution section 92, but the continued differences of opinion in the High Court in subsequent cases are sufficient evidence that their Lordship's opinion has not made the task of interpretation much easier. The conception of 'freedom at the forntier' is merely a metaphor, and not the major premise of a syllogism" ([62]).

The Banking case shed further light on the definition of "freedom of trade" adopted in the James case. In the 1948 judgment, their Lordships said:

> "These words ('freedom at the frontier') are appropriate to their context and must be read in their context. They cannot be interpreted as a decision either that it is only the passage of goods which is protected by section 92 or that it is only at the frontier that the stipulated freedom may be impaired. It is not to be doubted that a restriction, applied not at the border but at a prior or subsequent stage of interstate trade, commerce or intercourse, may offend against section 92. Nor, as their Lordships hold, in accordance with the view long entertained in Australia, is it in respect of the passage of goods only that such trade, commerce and intercourse is protected."

Complete Commonwealth power of acquisition would solve some of the legal problems of organized marketing. The constitutional position on this point has been summarized in section 2111 of the Tenth Report of the Rural Reconstruction Commission.

> "Section 51 (xxxi) of the Constitution provides that the Commonwealth may make laws with respect to the acquisition of property for any purpose in respect of which the Commonwealth may make laws. In terms this puts an express limit upon the power of acquisition, but how far this limit extends is not clear. In war-time, it appears, from what has transpired during the currency of the National Security Act, that it extends to the acquisition of commodities for the purpose of strengthening the economic front, for example, by way of stabilizing markets; but in peace-time there may be some objection in applying it to a case where the acquisition is for the purpose of disposal in the course

of a plan for the more effectual sale and distribution of a marketable commodity in which the Executive is not interested and which it does not desire to use for any governmental purpose. On the other hand, acquisition could be resorted to for the purpose of implementing an International Convention under the 'External Affairs Power'."

(g) Summary.

The difficulty of constructing any logical pattern from the cases surveyed should be apparent. Although various principles have been established each case must be decided on its own merits. However, the following important principles have been established or confirmed at the Privy Council level—

(1) Legislation may be unconstitutional despite the fact that (*a*) it does not discriminate specifically against interstate trade; (*b*) the legislature had no intention of interfering with interstate trade.

(2) Legislation which affects interstate trade may be constitutional if (*a*) it is a regulation of such trade as distinct from a prohibition; (*b*) cognately, such regulation is incidental and remote, rather than direct and immediate.

(h) Attempts to change the Constitution with Respect to Marketing.

One possible solution of the problem of organized marketing would be to give the Commonwealth power to make laws for the whole subject of trade and commerce by amending section 51 (i). Three early attempts to do this, in 1911, 1913 and 1919, failed, although the majority against constitutional change decreased from 259,348 in 1911 to 12,803 in 1919.

In 1937 an unsuccessful attempt was made to add to section 92 a new section, 92A, viz., "The provisions of the last preceding section shall not apply to laws with respect to marketing made by or under the authority of the Parliament in the exercise of any powers vested in the Parliament by this Constitution."

A different method was tried in 1942 when a Constitutional Convention met in Canberra to amend the Constitution by the insertion of fourteen powers, "to carry out war aims and post-war reconstruction." These included ". . . (*c*) Organized marketing of commodities." After considerable disagreement on various issues the State Premiers agreed to a proposal by the Premier of Tasmania that the States introduce legislation to refer the necessary powers to the Commonwealth *vide* section 51 (xxxvii). This method failed because of disagreements between the States. Some States wanted amendments to the proposed legislation, and the Tasmanian Upper House flatly rejected the Bill.

The 1944 "Fourteen Powers" referendum proposal included "organized marketing of commodities" but was defeated. A similar fate met the 1946 referendum proposal to include under section 51 (i):

"1. (*a*) Organized marketing of primary produce"; also

"2. Without in any way limiting the generality of the expression 'primary produce' in section (i) of this section, that expression should be deemed to include flour and other wheat products, butter, cheese and milk products, meat and meat products, and sugar.

"3. The power of the Parliament to make laws under paragraph 1 (*a*) of subsection (i) of this section may be exercised notwithstanding anything contained in section 92 of this constitution."

In evaluating the prospects of possible future referenda aimed at facilitating organized marketing, it is important to note that in previous recent referenda, terms like "marketing," "primary products," "commodities," etc., were not defined but left vague and to that extent unlimited, and this probably contributed to the defeats of the proposals.

In reviewing the issues raised in these referenda, the arguments advanced in favour of Commonwealth control of organized marketing may be summarised in three points.

(1) No government in Australia had the power to control interstate marketing, and this was essential to any home-consumption price scheme which would give the farmers the same advantages as had already been given to secondary industry by tariff protection.

(2) Post-war reconstruction involved planned marketing.

(3) Stabilisation of rural earnings was an important necessity for a stable national economy, and was not merely serving a group interest, *i.e.*, organized marketing was put forward as part of anti-cyclical policy.

The main points in the "case Against" were: (1) Objections to central planning and control. (2) Consumer opposition to primary producers' control of their industries. G. Greenwood ([63]) stresses the importance of this issue of "opposition claims that the aim (of the legislation) was to obtain higher prices for primary products sold on the domestic market." He mentions the objections that were raised to "selling big quantities at low prices overseas at the expense of the domestic consumer." In other words, it was felt that the legislation served sectional interests rather than the national interest. Any scheme for organized marketing based on an amendment of the Constitution seems to depend on persuading voters that the legislation will contribute to the stability of the whole economy.

However, constitutional amendments have not been so far necessary for the successful working of two Australian marketing schemes—those relating to wheat and dairy produce.

7. DEVELOPMENTS IN THE MARKETING OF DAIRY PRODUCE SINCE 1939.

During the decade from 1939 to 1949 there were more major developments in the marketing of dairy produce than at any other time in our history. These included government price control and acquisition, stabilization through guaranteed prices, rationing, subsidies and long-term overseas contracts.

(a) Commonwealth Intervention in Marketing.

Prior to the outbreak of war, the necessity for Federal marketing legislation arose principally from difficulties encountered by the various Australian primary industries in overseas markets. Much of this legislation was concerned with producer-controlled industry boards, with a minimum of government intervention. War-time conditions, however, so dislocated the normal facilities for marketing many of our primary

products, and raised so many problems with regard to organized marketing, that it was found necessary to introduce new controls and expand those already in existence. In the dairying industry, the Commonwealth Government was able to make use of the already existing machinery set up by, or at the request of, the producers, such as the Australian Dairy Produce Board and the Commonwealth Dairy Produce Equalisation Committee Limited.

Soon after the outbreak of war, the Commonwealth Government passed the Butter and Cheese Acquisition Regulations under the National Security Act, to enable it to take the necessary steps to carry out its bulk contract for the sale of butter and cheese to the United Kingdom Government. Under these regulations the Commonwealth was able to buy all butter and cheese delivered at grading centres, for export to the United Kingdom. To assist in administering the regulations, the Minister for Commerce appointed a Dairy Produce Control Committee with a majority of members from the Australian Dairy Produce Board. The activities of the latter organization were considerably curtailed and most of its functions, together with considerably wider powers, went to this new emergency body.

The Control Committee took such steps as were necessary to ensure an adequate supply of dairy produce for the civilian population and the Services, and to despatch the surplus to the United Kingdom in fulfilment of the Australian-United Kingdom contract. The Committee had power to purchase and dispose of produce on behalf of the Commonwealth, to arrange all matters concerned with storage, handling, treatment and shipment, and to appoint agents and issue licences for these purposes.

Towards the middle of 1943, the Commonwealth Government appointed a Controller of Dairy Products whose chief function was the co-ordination of the dairying industry with the general food plan developed by the Controller-General of Food.

Under the powers conferred on him by the National Security Regulations, the Commonwealth Prices Commissioner concurrently fixed the home-consumption prices of butter and cheese,—a power which has since passed to the States. This step involved two further developments. With prices pegged, rationing became necessary to ensure a fair distribution to the consumer, and subsidies were needed to enable dairy farmers to meet increased costs other than by means of higher retail prices.

(b) Rationing.

As well as ensuring equitable distribution under price control, rationing aimed at reducing home consumption for the purpose of sending more butter to the United Kingdom. A ration of 8 oz. per head per week was imposed on June 7th, 1943, and this was reduced to 6 oz. per head per week on June 5th, 1944, at which level it has remained. In addition, a Restriction of Cream Order, issued in May, 1943, banning table cream supplies, provided sufficient additional butter to supply two million people in Britain with 2 oz. per week. Through butter rationing, annual consumption was reduced from nearly 33 lb.

per head in the immediate pre-war years to less than 25 lb. per head in 1949. Although there has been some rationing leakage, it has been claimed that rationing has resulted in an extra 30,000 tons of butter a year for export. (To set this figure in proportion, our total exports in 1948-49 were approximately 83,000 tons.)

(c) Subsidies.

Partly to enable dairy farmers to meet increased costs under retail price control, partly to stimulate production, which had fallen disastrously, the Commonwealth Government decided to grant direct financial aid through subsidies to the industry. The subsidy was later to serve a third purpose,—the stabilization of the equalisation price at a level guaranteed the farmer by the Commonwealth Government.

The first war-time subsidy was paid in 1942 under the Dairying Industry Assistance Act of that year, and was designed to increase the prices paid for factory-made butter and cheese so that the factories could pay increased prices to farmers for milk and cream supplied. The price aimed at was 1s. 5½d. per lb. commercial butter. Farm-made butter and cheese were specifically excluded in this and later years. Upon the recommendation of the Tariff Board the subsidy was distributed on a flat rate basis through the Equalisation Committee.

The Dairying Industry Assistance Act of May, 1943, extended the subsidy to all processed full-cream products, payment being made on a commercial butter equivalent. There was a further change in the subsidy system during the following year (from 1st April, 1944, to 31st March, 1945). Previously, subsidies had consisted of specific sums of money for disposal. There were two difficulties here. Increased production would mean a reduction in the subsidy per lb. of dairy produce, and, further, to provide for abnormally high seasonal production, portion of the appropriation had to be held in reserve, necessitating two separate payments,—interim and final. The new method was to pay the subsidy at a certain rate per lb., irrespective of the total amount involved, so that only one distribution was necessary. This method is still used.

As well as the basic payment throughout the year (3½d. per lb. in 1944-45), there was a seasonal payment (2d. per lb. in 1944-45) on the commercial butter equivalent on 50 per cent. of the year's total production, such to be spread over the non-flush months. The aim of the Government was to regulate payments more closely to higher costs in the non-flush months, with the object of encouraging farmers to increase production in those months. However, in 1945 there was a reversion to a flat-rate subsidy throughout the year, the seasonal subsidy being withdrawn and the flat-rate subsidy increased. There were constitutional difficulties in the system of differential payments to the various States to allow for the fact that winter conditions did not affect production to the same degree in each State. The amended method created an anomaly in that months of flush production attracted seasonal subsidies in several States. Furthermore, it was alleged that seasonal subsidies were economically unsound, in that farmers should strive for maximum production during the most favourable period of the year, when costs are lowest.

The following figures show the extent of Government financial aid to the dairying industry during and since the war:

TABLE 12.

Commonwealth Subsidies to the Dairying Industry under the Dairying Industry Assistance Acts.

	Year ended June—					
	1943.	1944.	1945.	1946.	1947.	1948.
	£	£	£	£	£	£
New South Wales ...	277,000	1,833,000	1,495,000	1,524,000	1,070,000	2,394,000
Australia ...	1,186,000	7,346,000	6,812,000	6,374,000	5,223,000	9,040,000

(*Source*: Bureau of Census and Statistics—Half-yearly Summary of the Dairying Industry.)

The amounts include assistance on export dairy produce paid in the first instance by the Commonwealth Government and recovered from the Government of the United Kingdom.

In addition to these subsidies, the Commonwealth Government has also subsidised the production of whole milk consumed directly. The subsidy rates were varied according to States, regions within the State, and the seasonal period. Commonwealth subsidy on whole milk was paid during the year 1948-49 in respect of milk supplied up to 30th September, 1948, but was discontinued after that date. The following figures show the payments made from 1944 to 1949:

TABLE 13.

Commonwealth Subsidies on Whole Milk for Direct Human Consumption.

	Year ended June—					
	1944.	1945.	1946.	1947.	1948.	1949.
	£	£	£	£	£	£
New South Wales ...	35,000	734,000	1,042,000	901,000	986,000	204,000
Australia ...	319,000	1,786,000	2,520,000	2,249,000	2,157,000	564,000

(*Source*: Bureau of Census and Statistics—Half-yearly Summary of the Dairying Industry.)

There was also a third class of subsidy initiated during the war years —subsidies on fodder (including wheat, barley, oats and grain sorghums). This was an attempt to assist the dairying industry by reducing the rise in costs of production.

(d) The Effects of the Subsidies.

Undoubtedly the subsidies helped serve the war-time purpose of influencing many farmers who contemplated disposing of herds or reducing operations to carry on and produce to seasonal capacity. The subsidy tended to prevent the drain of manpower from the dairying industry and created an incentive for some large farms to increase manpower. The use of the subsidy to stabilize price (to be discussed later) allowed farmers to plan ahead with some security and encouraged the adoption of better long-term farming methods.

Use of war-time subsidies in this fashion, however, has dangerous as well as beneficial effects. Some regard must be had for post-war adjustments, and a subsidised price markedly out of proportion to future price prospects can create serious difficulties for the industry at a later stage. Costs tend to become adjusted to the higher price level, and it is extremely difficult in some cases to bring them down again.

Undoubtedly subsidies of this type benefit consumers rather than producers, but it must be remembered that increasing producers' returns by subsidy rather than by a price rise, allows the producer to sell more at the lower retail price than he would if consumers had to pay more for the product.

(e) The Guaranteed Price.

In 1943 the Commonwealth Government expressed its readiness to accept the principle of a return to dairy farmers based on the estimated cost of production. Calculation of costs was undertaken by a Production Costs Committee set up by the industry. The Committee's recommendation of 1s. 6d. per lb. for butter in 1943 was accepted. In the following year the Committee made a successful submission for a figure of 1s. 7.3d. per lb., but in 1945 its application for a return to the producer of 1s. 11¼d. was refused, and the guaranteed price was fixed at 1s. 7½d. per lb. There was no further increase until the 1946-47 season, when higher United Kingdom contract prices allowed for an extra ½d. per lb.

On 22nd October, 1946, the Minister for Commerce and Agriculture announced the formation of the Joint Dairying Industry Advisory Committee, consisting of four Government representatives and four industry representatives, with a Government-nominated chairman. The Committee has since acted as the advisory body to the Commonwealth Government on the costs and prices of butter and cheese. As a result of the Committee's first cost survey, a basic price of 2s. per lb. (commercial butter), with cost adjustments (later increased to 2s. 2d. per lb.) was guaranteed to producers for the five years ending June 30th, 1952. The guarantee applied to milk received for butter, cheese and processed-milk products. The cost figure includes an allowance for management of 25s. per week and interest on farmers' equity.

When the Commonwealth Government vacated the price field in September, 1948, it undertook to continue existing subsidy rates and asked that cost increases be passed on to the consumers through higher prices. A subsequent cost survey revealed a rise in farm costs of 2½d. per lb. (to 2s. 4½d. per lb.), while factory costs were found to have

increased by ½d. per lb (to 3d. per lb.). The former adjustment was made by the Commonwealth Government through an increased subsidy for the six months ended December 31st, 1949, but nothing was then done about the latter. The State Governments refused to allow a butter price rise of 3d. per lb. and a deadlock arose. On 12th January, 1950, the Commonwealth Government announced an extension of the extra 2½d. per lb. subsidy to apply until 30th June, 1950. At the same time, payment of a retrospective subsidy of 2½d. per lb. on a commercial butter basis was approved for processed-milk products (beginning July 1st, 1949.) On 2nd February, 1950, it was announced that an extra ½d. per lb. subsidy on commercial butter would be paid by the Commonwealth Government to meet the rise in the manufacturing costs of butter and cheese. This enables factories to pay farmers the full guaranteed price of 2s. 4½ per lb. commercial butter. Allowing for the estimated 3d. per lb. manufacturing costs, this brings "Overall Returns to Manufacturers" (see Table 7) to 294s. per cwt. for butter, necessitating an anticipated subsidy rate of 50s. per cwt. The subsidy rate for cheese is estimated at 30s. 6½d. per cwt. Calculating the subsidy on home consumption only, existing rates are approximately 9d. per lb. for butter and 4½d. to 5d. per lb. for cheese ([84]). Negotiations between the dairying industry and the Commonwealth Government on the subject of a guaranteed price are conducted by the Australian Dairy Farmers' Federation—a Federal organization formed in 1942. This body supplies the industry representatives on the Joint Dairying Industry Advisory Committee.

(f) The United Kingdom Contract.

Dominating our export marketing of dairy produce is the United Kingdom contract, under which almost the whole of our exports of butter and cheese since the outbreak of World War II has been sent to Great Britain. From 1939 until the 1944-45 season, the contract was negotiated annually, but the four seasons 1944-45 to 1947-48 were covered by the Long-Term Purchase Agreement.

Contract prices were closely interwoven with subsidy payments. Although subsidies were paid on the whole of production, including exports, it was not intended that the Government should bear the whole cost of the export subsidy, so that increased contract prices allowed for decreased subsidy payments. The United Kingdom Government was approached and agreed to reimburse the Commonwealth Government for the subsidy paid on butter and cheese exported on Ministry of Food account subsequent to 1st April, 1943; up to 11th October, 1948, the amount recovered was £7,027,075 ([85]).

When the Four Year Contract terminated in June, 1948, it was replaced by a Seven Year Contract for the period 1948-49 to 1954-55, under which the Ministry of Food contracted to take the whole of our available surplus of butter and cheese. Under the contract prices are reviewed annually, but considerable security is given to the dairying industry by the provision that price variations are not to exceed 7½ per cent. of the contract price ruling in the previous year. The contract

prices of butter and cheese sold to the British Ministry of Food since 1943 are set out in the following table:—

TABLE 14.

United Kingdom Contract Prices of Butter and Cheese: F.O.B. Australian Ports.

(Price per cwt.—Australian currency.)

	Butter.				Cheese.		
Year ended June.	Choicest Grade.	First Grade.	Second Grade.	Pastry Grade.	Choicest and First Grade.	Second Grade.	Third Grade.
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
1943, 1944	142 10	113 0	136 9	.....	87 6	85 0	82 6
1945, 1946	184 8	183 1	178 7	175 0	107 6	105 0	102 6
1947	216 10½	215 4	210 7½	206 10½	126 3	123 9	121 3
1948	254 4½	252 10	248 1½	244 4½	145 7½	143 1½	140 7½
1949	291 10½	290 4	285 7½	281 10½	164 4½	161 10½	159 4½
1950	313 9	312 4	307 6	303 9	175 0	172 6	170 0

(*Source*: Commonwealth Bureau of Census and Statistics.)

When the contract prices for 1946-47 were being negotiated there was a differential of 2s. 9d. per cwt. sterling in favour of New Zealand, but this differential was abandoned for 1946-47 after strong representations from the Australian negotiators. A margin of 1s. 6d. per cwt. sterling still remained, but this represented the additional cost of landing Australian butter in the United Kingdom and thus merely ensured that the net cost to Britain of Australian butter was identical with that of New Zealand butter ([66]).

In the earlier contracts the quantities of butter and cheese to be accepted were stipulated, but in later contracts the British Ministry of Food contracted to take our total exportable surplus, with minor exceptions. (See Table 16). There was a provision for small quantities to be shipped to other countries in order to keep Australian butter established on these markets, so that when the United Kingdom contract terminated, Australia would not face the problem of seeking entirely new outlets for her dairy produce. The present position is that this "total surplus" clause (applying also under the United Kingdom Meat Contract) prevents Australia from seeking other profitable markets that exist, without Britain's permission.*

Although the export prices for our dairy produce are at peak levels, comparisons with other countries reveal that the long-term contract method of disposing of our surplus has resulted in our obtaining lower export returns for our butter than other countries supplying the United Kingdom. The following table, derived from official British Board of Trade statistics, shows that Australia and New Zealand have not participated in price rises since 1938 to the same extent as have other suppliers of dairy produce to the United Kingdom. This is part of the price paid for the stability of a long-term contract.

**In the United States, the cost of butter imported from New Zealand, Australia, and Denmark (including import duty of 14 cents per lb.) would be between 12 and 14 cents per lb. below the United States support price of 62 cents. Negotiations would be necessary, as butter is still covered by import licensing regulations. The United States dairying industry is protected by a price-support programme.*

TABLE 15.

Prices of Imports of Butter and Cheese into the United Kingdom.

Exporting Country.	Butter.				Cheese.			
	Net value (c.i.f.) in £ sterling per cwt.		Rise in price as percentage of 1938.		Net value (c.i.f.) in £ sterling per cwt.		Rise in price as percentage of 1938.	
	1948.	1949.*	1948.	1949*.	1948.	1949*.	1948.	1949*.
Australia	10·92	12·31	68	89	6·66	7·24	74	89
New Zealand	11·06	12·33	63	81	6·57	7·29	63	80
Denmark	16·32	16·29	145	145	12·70	13·48	195	213
Argentina	23·42	25·00	325	354	...	...	...	...
Canada	...	...	...	...	8·70	8·95	109	114

* Nine months ended September 30th, 1949.
These figures cover all grades of butter and cheese under different contract periods.

The following table shows the quantities stipulated under wartime United Kingdom contracts for the supply of dairy produce. However, a decline in production and an increased demand from Australian and Allied Services based on Australia necessitated reductions from year to year in these contract quantities.

TABLE 16.

Quantity Provisions Under United Kingdom Contracts.

Period of Contract.	Butter.	Cheese.	Dry Butter Fat.
	Tons.	Tons.	Tons.
13th November, 1939, to 30th June, 1940	75,000	13,000	.....
1940–41 season	100,000	20,000	.....
1941–42 season	60,000*	40,000	.....
1942–43	70,000	10,000	10,000†

* Choicest and first grade only.
† Prices—195s. 7½d. per cwt. A.C. (f.o.b.) for first grade.
181s. 3d. per cwt. A.C. (f.o.b.) for second grade.
Actually only 2,203 tons were exported during that period.
(*Source*: Commonwealth Bureau of Census and Statisticics—Half-yearly Summaries of the Dairying Industry.)

In the early years of the war, the British Ministry of Food informed the Australian authorities that cheese was wanted more urgently than butter, and requested a switch-over to cheese production. To provide a financial incentive, the price offered for cheese was increased by 7/6d. A.C. per cwt. without any corresponding increase in the price offered for butter. This adjustment provided a difficult task in regard both to whole milk and plant. It was not possible to divert whole milk supplies from processed milks, as there was an increasing and urgent demand for these products from the Services.

In 1941 the Dairy Produce Control Committee asked butter manufacturers, where possible, to undertake the manufacture of cheese, and the annual butter target was reduced. The Committee provided any necessary finance and gave a guarantee against loss to any manufacturer who switched over. Those manufacturers who entered into emergency cheese production were later fully relieved of the associated financial responsibilities, plant and buildings being taken over by the Committee which realised on them to the best possible advantage.

Another wartime development arose from experiments in the marketing of second-grade butter. A method was evolved by which the fat could be separated from the butter on a fairly large scale. An experimental batch of dried butter-fat was sent to England and was received favourably, whereupon the Queensland Butter Board erected a large plant. In 1942 an order for 2,000 tons of pure butter-fat was received from the United Kingdom, with indications that the demand would continue.

Exports of butter and cheese are controlled by the Australian Dairy Produce Board, but the Board only has absolute control over the token quantities which the Ministry of Food has agreed to release to outside markets (3,500 tons of butter in 1949-50). For sales under the contract, the Board carries out the actual exporting arrangements. Exports of processed-milk products are not at present controlled by the Board, although the Act provides for control at Ministerial direction; that is, if the Minister prescribes these products in the definition of "dairy produce" under the Act. However, the Board decided, at a meeting in June, 1949, to recommend to the Minister for Commerce and Agriculture that all processed-milk products should be brought under the jurisdiction of the Board's regulations ([67]).

(g) The Stabilization Fund.

The increased prices negotiated for the year 1948-49 under the United Kingdom Contract were in excess of the f.o.b. equivalent of the basic return to the factory of 266/6d. per cwt. commercial butter. (i.e., guaranteed return to the farmer, plus manufacturing costs). Accordingly the Commonwealth Government, with the concurrence of the Australian Dairy Produce Board, decided to create a fund into which returns from exports in excess of the guaranteed return to the farmer are placed for the purpose of stabilizing returns from exports for the period of the contract. It was arranged that the fund, known as "The Dairying Industry Stabilization Fund," would be held in trust by the Australian Dairy Produce Board, which was reconstituted with wider powers in 1947 to replace the Control Committee.

These excess returns for the year 1948-49 were 20/7½d. per cwt. for butter and 3/11½d. per cwt. for cheese (Australian currency) in respect of direct shipments to the United Kingdom. It is estimated that payments into the Fund for 1948-49, the first year of the extended contract, will approximate £1.75 million. The Commonwealth Dairy Produce Equalisation Committee believes that approximately £1,000,000 may be added to the Stabilization Fund from butter in 1949-50, but returns from cheese will not permit of a contribution. This would mean that the Stabilization Fund would stand at slightly less than £3,000,000. Its present level (January, 1950) is £2,380,000. However, the Commonwealth Government will spend considerably more than this amount over the two years on subsidies to enable the payment of the guaranteed price. On a strict equalisation basis this export surplus would be used to increase the equalised value of dairy produce, necessitating a smaller subsidy payment by the Government, so that, in effect, the Stabilization Fund is indirectly being built up at the expense of the Commonwealth Government, as part of the subsidy scheme.

When the return on exports falls below the guaranteed return to the farmer, plus manufacturing costs, the Fund will then be used to make up the defiency. If overseas returns fell to, say 5 per cent. below the Overall Return to Manufacturer of 294/- (necessary to pay the guaranteed price to the Producer), then, assuming that butter exports continued at the 1948-49 rate of 83,000 tons per annum, the Stabilization Fund at its present level of £2,380,000 could make up the deficiency on butter alone for a period of approximately two years. For payments on both butter and cheese in these circumstances, the Fund would probably cover about twenty months.

(h) Market Control and Practices in the United Kingdom ([illegible]).

In pre-war days, over 90 per cent. of Australian butter exported to the United Kingdom was sent "on consignment," the balance being sold f.o.b. or c.i.f. The butter was imported by import agents, licensed by the Australian Dairy Produce Board, on a 2½ per cent. commission basis. There were 46 of these agents on the Board's official list when war was declared in 1939. From the agents, this butter was distributed thus:—

50 per cent. to Wholesalers, Packers, Blenders, etc.

50 per cent to Retailers (including Co-operative Societies and Multiple Shop Groups, who together distributed 45 per cent. of Australian butter in the United Kingdom).

Only about 30 per cent of butter sold in the United Kingdom was packeted, and of this, only a negligible amount was Australian butter. Australian butter, in almost all cases, whether sold packeted or bulk, lost its identity under the general title "Empire." (The two brands used were "Empire" and "Foreign.")

Soon after the outbreak of the 1939 war, the Ministry of Food requisitioned all stocks, imports and production of butter within the United Kingdom and imposed rationing, the allowance varying between 2 ozs. and 4 ozs. per person per week. All butter was pooled and allocated to distributors. In 1941 an organization known as the Butter and Cheese Association Ltd. ("Bacal") was formed to supervise the disposal of butter and cheese as the sole agent of the Ministry of Food. The previous distributors were shareholders in "Bacal" and the commission earned by Bacal was distributed on the basis of shares held, although some of these distributors participated in very little of the actual work of distribution.

Imports were arranged through the Ministry of Food on a Government-to-Government basis by means of bulk contracts, and there was a complete disappearance of individual importers. The prices paid under these contracts did not dictate the values at which dairy produce sold in the United Kingdom; e.g., for a considerable time, butter was retailed in the United Kingdom at 1/4d. per lb.,* whereas a price of 2/2d. per lb. or more would have been necessary to cover total costs.

**From May 22nd, 1949, the United Kingdom retail price of butter was increased from 1/4d. per lb. to 1/6d. per lb.* ([illegible]).

In Australia the fullest use was made of Australian shippers, who continued to ship, as agents of the Dairy Produce Control Committee, any surplus butter and cheese placed in their hands by manufacturers for whom normally they would act as agents.

In the United Kingdom there was a complete suspension of regulations requiring distributors to sell under certain brands denoting the source of supply, and there was an abandonment of the distinction between different grades of dairy produce offered for sale. All butter was sold as "National Butter."

The same method of distribution has applied in the post-war period, with the exception that there has been a reintroduction of individual importers as sub-agents of "Bacal" (not as direct agents of the Ministry of Food). There has been some dissatisfaction over the merging of all butter into "National Butter," and at a meeting in New Zealand in 1949, "Empire Dairies" favoured a reversion to marketing under brand names. It was pointed out that Danish butter, being of high acidity, does not keep well, and as this is a component of "National Butter," it was feared that butter is losing favour with consumers.

8. FUTURE MARKETING OF DAIRY PRODUCE.

A few of the salient factors affecting the future marketing of dairy produce can be listed as follows:—

(1) *Population Increase.*—Australia's population is increasing at the rate of about 200,000 per annum. Making allowances for future immigration, it has been predicted somewhat optimistically that Australia's population will reach ten million by 1957. If we assume that total production and consumption per head of dairy produce will not vary greatly, it can be estimated that when Australia's population reaches about 10,700,000 there will be virtually no export surplus, and producers will be wholly dependent on a relatively more stable and manageable local market.*

(2) *Rationing.*—Rationing of butter and restrictions on cream consumption have had the effect of fixing Australia's exports of butter at a temporary and artificial level. The cessation of rationing would further increase the importance of the home market by 25,000 to 30,000 tons of butter per annum, assuming there are no large leakages in rationing as administered at present, and that consumption per head would return to pre-rationing levels.

**Estimates as to when Australia's population will reach ten million range from 1957 to 1970 ([70]). The estimate of the point of self-sufficiency was made on the basis of present consumption per head per annum of whole milk as cheese, as fresh milk and cream, and as processed milk. The butter figure taken was 68.3 gallons of whole milk per person per year—the pre-war level of consumption—since it was assumed that rationing will eventually be discontinued. Total whole milk consumption per head per annum on this basis was estimated at 112.8 gallons. At the 1948-49 level of whole milk production of 1,206 million gallons, the point of self-sufficiency in whole milk would be reached at a population of 10,700,000 approximately. The weakest assumption here is that production will not greatly increase, but the figures do serve to indicate that the dairying industry is likely in the future to be less dependent on the overseas market.*

(3) *Trends in Utilisation.*—Utilisation trends reveal a swing away from butter towards fresh milk and processed-milk products. Some of the causes of this may be temporary (e.g., rationing of butter and high income levels stimulating demand for unrationed dairy products). However, some are more permanent, the main factors here being changed consumption habits and increased population, leaving a smaller export surplus for butter. It can be predicted that there will almost certainly be no return to the pre-war position, in which the dairying industry was dependent on butter as an outlet for 78 per cent. of whole milk production. If Australia's population increased to the point where we were barely self-sufficient in whole milk, utilisation would be roughly as follows:—

65 per cent for butter.
26 per cent. for fresh milk.
4.5 per cent. for processed milk.
4.5 per cent. for cheese.

(There is no allowance in this calculation for possible changes in consumption habits, except an allowance for the cessation of butter rationing).

The fresh milk market would, in these circumstances, be of considerably more importance to the dairying industry than in pre-war years, when only 14 per cent. of whole milk was used for fresh milk, ice-cream, sweet cream, etc.

(4) *The Stabilization Fund, the Guaranteed Price and the United Kingdom Contract.*—These factors will considerably stabilize the industry's marketing position. However, the Stabilization Fund stands only at a relatively low level and the possible contract price adjustments of 7½ per cent. per annum, if enforced stringently by the United Kingdom, could mean a considerable deterioration in our marketing position for dairy produce over a period of years.

(5) *Future World Demand* (70).—There is a world shortage of fats and oils which is unlikely to be met in the immediate future. As in Australia, overseas countries are experiencing greater consumption of fluid milk and increasing population, and the quantities of butter and cheese entering world trade are considerably below pre-war levels. In the main exporting countries (Denmark, the Netherlands, Australia, New Zealand, Ireland and Sweden), exports in 1947-48 were 34 per cent. below pre-war in the case of butter and 10 per cent below pre-war in the case of cheese. The world shortage of meat tends to increase world demand for cheese as an alternative source of protein. In the long term, Germany and Japan are likely to regain much of their pre-war purchasing power, creating a greater demand for fats and oils generally. Australian produce should be favoured in the European market by the dollar shortage, which makes difficult the sale of butter and cheese from the hard currency areas.

(6) *Margarine Threat.*—During the war, butter was to a considerable extent replaced in Britain by margarine, as a supplement to the butter ration. Past experience has shown that the butter market, once lost to margarine, often proves difficult to recover. (The butter substitute question will be treated in the final part of this article, to be published in the next issue.)

(7) *World Price Trends.*—Another disturbing factor in the future outlook for the marketing of dairy produce is the present trend of world prices.

"In late 1948 and early 1949, world prices fell sharply from their post-war peaks in 1948 . . . . The Canadian and United States Governments have supported prices of manufactured dairy products at present levels by buying supplies over current demand at these prices . . . An example of the trend in European supply and prices is the fact that Denmark has recently negotiated a six-year contract with the United Kingdom at a price for butter, for the first year, 50/- per cwt. below the previous annual contract" ([70]).

(8) *A Market for Milk Residues.*—A market for dairy produce which may develop considerably in the future is that for dried non-fat solids, which are by-products of the manufacture of butter and cheese. These are marketed as condensed or powdered skim milk, butter milk and whey, casein and milk sugar (lactose).

Production of the most important of these, skim milk powder, increased from a negligible figure in pre-war years to 4,064 tons in 1947-48 and 6,629 tons in 1948-49; i.e., nearly one-quarter of our total production of powdered milks. Casein, which is manufactured from skim milk, and has important industrial uses, has risen from pre-war insignificance to a production level of 2,758 tons in 1948-49.

Most of the skim milk resulting from farm separation is fed to stock, mainly pigs. This constitutes a waste of an enormous potential food supply. The waste involved in using skim milk, etc., as stock feed can be seen from the fact that 10 lb. of milk protein used in this way, produces 1 lb. of less digestible meat protein ([71]). Furthermore, the fact that cream contains very little of the calcium in whole milk means that more than half of the milk calcium produced in Australia is fed to stock.

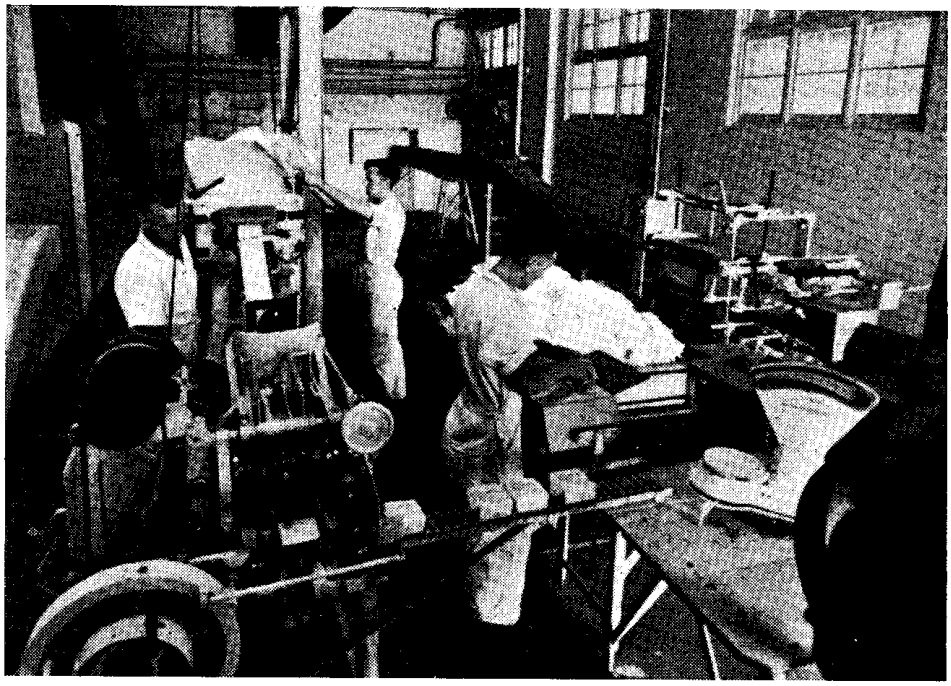
It is a surprising fact that Australia's production of skim milk is estimated to contain three times as much protein and twelve times as much calcium as there is in our entire meat exports ([72]). Yet only 1 per cent. of this valuable food goes to human consumption, and every year over 500 million lb. (dry weight) of the "highest quality nutrients known to man" are used for stock or wasted ([72]). In terms of money, this dried skim milk would be worth over £17,000,000 at present prices.

Transport and other difficulties would probably preclude the use of at least one-third of this amount, but if New South Wales utilised two-thirds of her production, the value of dried skim milk produced in this State would jump from about £22,000 to a potential £3,000,000.

In the immediate future, greater utilisation of milk residues is limited by shortages of drying plants and other equipment. In the longer run, there are two vital factors. Firstly, a continuance of the trend towards whole milk delivery at the factory rather than delivery of cream, would be necessary. Whole milk deliveries eliminate one of the main economic difficulties in the processing of milk residues—the

collection of the residues in liquid form. To collect and utilise one-third of Australia's skim milk, an extra 15 million cans, thousands of lorries and a great deal of factory equipment would be needed ([72]).

The second vital factor is consumer education and the development of new uses to provide a large and stable market. The largest market for skim milk and butter milk may lie in their incorporation into articles of staple diet. In some European countries and in the United States, it is customary—in some cases legally required—to add, say 6 per cent. of skim milk powder to bread ([73]). C.S.I.R.O. experts in Australia have developed a formula for bread containing 12½ per cent. of skim milk powder, which yields a palatable loaf of vastly superior nutritive value at an estimated extra cost of one half-penny per loaf ([74]). Experiments in the addition of the milk residue powders to smallgoods such as



BUTTER BEING MECHANICALLY WRAPPED IN LB. PACKETS FOR DISTRIBUTION TO THE CONSUMER.

sausages and saveloys have also shown promise, and the promotion of the sale of non-fat dry milk solids in retail packages, together with recipes for their use in the home, may provide an important market for the dairying industry.

It is probable that there will be considerably less scope in the future for raising the incomes of dairymen by paying them more for their products. The acute world shortage of fats and oils will not continue indefinitely, and better utilisation of milk residues may be an important contribution to the efficiency of the industry and the income of the producer.

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