

# INDUSTRY DEREGULATION IN NEW ZEALAND

The following Paper was presented by Board Member Mr. Malcolm Peacock at The Victorian Egg Marketing Board 3rd Annual General Meeting held on the 11th November 1986.

Following a recent visit to New Zealand and because of the proposed changes in South Australia and the Public Bodies Review Committee investigation of the Victorian Egg Industry, Mr. Peacock has prepared the following review of the changes taking place in New Zealand.

## Pre-Deregulation

The recorded layer population for New Zealand was 3.22 million birds which were spread over 440 farms with a large percentage of the birds being kept on the North Island.

The Industry was regulated by a quota system administered by the New Zealand Poultry Board which controlled the number of birds per farm, the size of the farm (limited to 20,000 birds) and the transfer of quota from one farm to another. Seasonal quota cuts were implemented and there was control over the quality and size of eggs.

The New Zealand Poultry Board also arranged the financing and disposal of surplus eggs, generic advertising and provided funds for poultry research. The Board itself was financed by a levy on all day old pullets at the rate of 30 cents each and also a levy on all quota birds which was 30 cents per month. Most eggs were graded and distributed through approved marketing agents, mainly producer-owned co-operatives. The New Zealand Poultry Board was never responsible for setting producer or retail prices. These were set by the Department of Trade and Industry. The Dairy Industry in Victoria operates under a similar system.

The New Zealand Board would maintain a cost of production survey and this was investigated by the Department of Trade & Industry which would then decide what the producer should receive. This applied to both retail and distribution margins.

In 1983/84, the New Zealand Board recommended changes to

the Regulations which they believed would stimulate the desirable economic pressures present in a free market economy. These proposals were agreed to by the Government but were held over until the Industries Development Commission reviewed the Egg Industry over the following 12 month period. The outcome of this move was a proposal by the Commission to deregulate the Industry which was supported by the Government and the rest is history. It would appear that this resulted mainly from pressure exerted by economists in the Trade & Commerce Department who had already set a pattern of deregulation for all industries in New Zealand. There is no doubt that changes were needed to the New Zealand Egg Industry but these could have been effected by means other than deregulation.

## Deregulation and Beyond

On the 1st April 1986, deregulation came into effect with the only control being the maintenance of quotas and these are to be phased out by 30th June 1988. This means that the Government had removed all Regulations relating to price control, quality, grade sizes and farm sizes.

For the first few weeks, nothing happened until a Christchurch producer found other producers from the North Island trying to take over the Wellington market. Christchurch producers retaliated and cut the price by up to 60 cents a dozen.

South Island producers suffered losses of \$1 million.

Producers and grading floors quickly saw the price wars were not to their advantage and a number of voluntary arrangements were entered into by producers and grading floors in an attempt to stabilise the market. If the Woolworth Chain had not lowered their prices, the prices at other supermarkets would have remain high. Small stores, butcher shops and dairies kept the prices up and pocketed up to 60 cents per dozen.

The present situation is that prices have increased to a level above that



which existed in April 1986. Grading floors are now charging extra margins for promotion and advertising. Retailers and distributors are taking a higher margin, mainly as a precaution and producers are getting less in their pocket. During the period of the price wars, sales actually dropped.

One of the ideas behind deregulation was that prices would drop due to greater competition. However, it would seem consumers are paying more because of the fragmentation of the market into smaller sections, each now marketing against the other and having to bear much higher costs to do so. Some of these additional costs include individual brand names and advertising costs for carton. This is due to short production runs and lack of bargaining power. In discussions in Wellington with the Under Secretary of Agriculture, David Butcher, the question was asked as to why prices had not been dropping. He believed that prices would drop over time and should remain down in relation to inflation.

Most floors are now issuing contracts which, in effect, limit the number of birds kept on a farm. The contract has to have a spread sheet attached showing the farm's planned programme of dates of stock purchases and the breed of the birds. The New Zealand Commerce Act has been introduced (based on the Australian Trade Practices Act). It was reported that contracts between farms and

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grading floors could be in violation of this Act and that participants could be liable for fines up to \$300,000. However, David Butcher did not appear concerned about this.

It is always difficult to make comparisons between countries, even one such as New Zealand which is very similar to Australia. New Zealand, for example, has a National Government regulating industries whereas this is a task carried out by State Governments in Australia.

There are similarities however. New Zealand has always had a large surplus of eggs which has been reduced in recent years but not to level achieved by Victoria. The surplus situation has caused problems in Government circles because the cost was built into the cost of production. A similar situation existed in Australia a few years ago. Another point is the cost of fragmenting marketing activities. It is a considerable cost to both the producer and the consumer. With the setting up of the National Marketing programme, Australia is attempting to achieve the opposite result - reducing cost by sharing these costs between States.

The New Zealand Board is handling only generic advertising and grading floors and individual farmers are advertising separately and buying their cartons individually using small runs - costs are going from 9 cents to 15 cents just for the carton.

Under the orderly marketing system, New Zealand had always returned shell egg prices on its local products, pulp etc. which is something the Australian Industry has been trying to achieve for years. This has all changed since deregulation. Local products are now being sold below cost because of the disorganised disposal of surplus eggs.

#### **New Zealand Industry Facts**

Consumption of eggs in New Zealand is said to be 285 per head per annum and has dropped by 20 eggs per person over the last 8 years. This makes New Zealand the highest consumer of eggs in the world. Consumption figures are obtained through market research not statistics. This is due to the large number of back-yard flocks. In Breeds such as Shaver and Ross,

international brown egg layers are mainly used and there are very few tinted eggs (mainly white and brown). Brown eggs are very uniform in colour. All farms have high performance figures i.e. 285 eggs per annum. Farmers get a premium for brown eggs and it is more profitable to use the Shaver white egg layer. Weighted feed price is \$NZ324 per tonne. Day old pullets sell for \$NZ190 per 100 including the levy of 30 cents per chick. This is paid to the New Zealand Board to be used for generic advertising and research.

Under deregulation, the New Zealand Board also collects two cents per month per quota bird instead of the 30 cents collected prior to deregulation. Voluntary quota cuts exist for the summer period and if no cut is desired by the farmer, he pays 30 cents instead of 2 cents per bird. This appears to be working well. Other costs that must be borne by the producer include charges by the marketing agents to handle the eggs amounting to about 51 cents per dozen on the North Island and possibly another 15 cents on the South Island to cover surplus.

#### **Conclusion**

The deregulation of the New Zealand Industry by the Government is bringing about a new set of regulations - the corporate regulations which are coming into effect now and which, over time, will probably require the Government to impose further regulations to protect various sections from exploitation.

To put it in Malcolm Peacock's words 'This is just like a "Clayton's" deregulation - when you think you are having one, you are not.'

It would seem that a lot of producers will suffer from deregulation with very little benefit going to the consumer.

## **ADVERTISING BUDGET INCREASE NEEDED**

The Victorian Egg Marketing Board's Deputy Chairman, Jerome Nugent-Smith told the Annual General Meeting on Tuesday 11th November, the advertising budget should be doubled just to keep pace with the level of advertising the industry had in 1976.

Mr. Nugent-Smith produced figures which showed that from 1976 to 1985, the cost of media time had risen more than 450 percent. This meant that in 1985, \$550 bought only as much as you could buy in 1976 for \$100.

In that period, the cost of a sixty-second television spot alone increased by 590 percent!

The figures showed media rates have increased by more than 16 percent each year. The Board's advertising budget this year would need to be \$2,053,000 to purchase the same amount of media it could with the \$280,000 budget of 1976. In fact, the budget allocation is less than half that!

Mr. Nugent-Smith said sales figures in recent months, following the appointment of Creativeoad as the Board's new advertising agency, had shown good advertising could reverse the trend of declining consumption. But he warned long term improvements could only be expected if the advertising budget was sufficient to maintain an adequate level of exposure.

'The egg is under attack from a great number of products from breakfast cereals to fast foods', he said. 'A cereal manufacturer spends more on one of his many brands than our total advertising budget. If we want to survive the attacks, we must have the funds to fight back.'

Mr. Nugent-Smith said, 'Even if we doubled the advertising budget, we would only just be keeping up with what we were doing in 1976. To make real inroads in the market and take back some of the lost ground, more is needed.'

The Deputy Chairman also showed that the Egg Industry was spending much less than it should on packaging its product.

'The egg suffers from the worst presentation of any product in the supermarket', he said. 'Other marketers don't have to protect their product as much as we do, and yet they spend up to twice as much as we do, just to make their product look more attractive than their competition. We need to do more to make our packs appealing to the consumer.'

Mr. Nugent-Smith said that in the modern world of self-service shopping, the Egg Industry would have to pay more attention to packaging to compete for the consumer's interest in the crowded supermarket environment.