



Chairman's Message

Annual Meeting A Success

The 5th Annual meeting between Producers and the Board held on Tuesday 15th November proved to be a successful day, despite the wet weather reducing attendance slightly on other years.

The highlights of the meeting were the paper presented by David Brown, General manager of Good Food Products and Dr. David KcKinna's talk on the current marketing environment. These papers stimulated quite a lot of discussion which was valuable for Board members and management and, no doubt, valuable information for Producers.

NSW Enquiry Report

At the time of writing this report the NSW Report was in the hands of the Government. However by the time you receive your Newsletter there will be news of the enquiry's finding. I would expect it to be on the deregulatory "fashion" perhaps far more severe than the Victorian PBRC Report. (See Stop Press News Release enclosed—Editorial).

However I would caution producers reading into any Report the worst scenario because the NSW Minister has given an undertaking

that he will listen to the industry before forming any legislation. "So while there is life there is hope".

Marketing

The Board proposes to again take advantage of lower TV rates during January—February period to heavily advertise eggs following the success with the summer campaign of the previous 2 years.

This year's TV commercials will have a sporting flavour namely cricket and tennis, to take advantage of the big sporting promotions over that period.

The Marketing Sub-Committee recently held a meeting with Coles Supermarkets to discuss improved co-operation between both Organisations to enhance our egg sales.

The new concept of egg marketing by Coles that is to take eggs off the trolley and pack on to shelves was thoroughly discussed with the Board offering its co-operation in the new arrangement.

Improved ordering methods and half shelves of two grades (e.g. 60 dozen 49's, and 60 dozen 55's) were also discussed and plans to

implement trials in both areas were agreed to.

National Advertising

This will commence in February to answer the negatives of the cholesterol debate. Double page ads will run from February to June in leading medical journals, booklets will be circulated on cholesterol facts and low fat foods to Doctors and waiting room posters prepared for doctors rooms.

Double page advertisements directed to consumers will also run from February to June in National Magazines such as Woman's Day, New Idea, Readers Digest, The Bulletin, Woman's Weekly etc.

Advertisements will reinforce the nutrition value of eggs. The big advantage with these Magazines is their long reading life.

Egg Prices

Negotiations are continuing with the Prices Commission's office, when the Board has answers to its queries, a decision will be made on the report and announced to industry hopefully before the end of the year.

Don Foster

Standing Committee on Agriculture Working Party's Report

After the Victorian Public Bodies Review Committee Report the then Minister of Agriculture Mr. Walker referred the recommendations of the Public Bodies Review Committee to the Australian Agricultural Council which formed a Working Party of the Standing Committee on Agriculture to report on the Egg Industry in Australia.

The Standing Committee on the Agricultural Working Party have submitted a final report in June 1989 which summarised and made recommendations on the Egg Marketing arrangements in Australian States and Territories.

The following is a summary of the Resolution of the Standing Committee on Agriculture presented to the Australian Agricultural Council on Thursday 14 July 1988.

1. Standing Committee draws to the attention of Council the principal findings of the Working Party on Egg Marketing Arrangements that there are 'significant and growing threats to the stability of the Egg Marketing System'.
2. Standing Committee noted the view of the Working Party that some change is inevitable, and that without some action a collapse of the present egg marketing arrangements is possible. A rapid collapse would lead to large economic and social adjustment costs as the industry was forced to restructure.
3. Detailed options for consideration by State and Commonwealth governments to improve egg marketing arrangements were presented by the Working Party.
4. Standing Committee noted that Victoria has announced that quotas will be retained until 1994, and will then be reviewed. Standing Committee also noted that New South Wales had announced an enquiry into egg marketing; that it currently faces a legal challenge on price equalisation levies; and that it is undertaking discussions on ways of bringing 'rebel' egg farmers into the orderly marketing system.
5. Standing Committee also draws the attention of Council to the issue of retail concentration and retail margins. *The Working Party expressed concern that the benefits of freeing up egg marketing could be in part captured by supermarkets through*

higher retail margins.

6. Conclusions and Recommendations

6.1 The egg industry has undergone steady restructuring and adjustment in recent years. The number of producers has fallen steadily, and the average farm size has increased. Productivity per bird has increased and there has been significant technical advance in the industry in such areas as poultry housing, genetics and nutrition. The unprofitable export surplus, which was of major concern in the industry, has declined significantly. Partly as a result, egg prices have fallen in real terms.

6.2 Despite these changes, major problems remain:

- the egg industry is still considered by the IAC to be one of the most highly protected agricultural industries in Australia;
- high consumer prices are seen to be a problem; however, high prices could also occur in a less regulated system if retail margins were to expand;
- quota values associated with production controls remain high;
- market signals to producers are distorted, particularly by equalisation levies;
- resource mobility is restricted, and resources are not used to their maximum efficiency.

6.3 There have also been some changes to marketing arrangements in recent years, the principal one being the withdrawal of the Commonwealth from collecting equalisation levies. Various changes which have recently been made, or are being contemplated, in state legislation will also to some degree improve resource use and make pricing systems more flexible. However, despite these changes, outside the wholly or partly unregulated systems of the Australian Capital Territory, the Northern Territory and Northern Queensland, the major institutional features of vesting, quotas and price setting remain largely intact.

6.4 The Working Party believes that there are now significant threats to the stability of this system. The following pressures for change are discussed in detail in the body of the report:

- economic pressures to reduce protection in the current environment of Australia's continuing balance of payments problem, Australia's role in multilateral trade negotiations on GATT, and Closer Economic

Relations with New Zealand;

- legal uncertainties about equalisation levies and the use of regrading requirements for interstate eggs;
- increasing concentration in the egg industry, which makes any transfer from consumers more conspicuous and inequitable;
- increasing concentration in retailing, raising the possibility that retailers will exploit price differences and play one marketing authority against another (the role of retailers in destabilising milk marketing arrangements was drawn to the attention of the Working Party);
- the prospect of policy changes in some states, which could be destabilising; however, *the Working Party noted that the threat of a major policy change in Victoria creating immediate problems for other states (which was one of the main motivations for setting up this Working Party) has now receded;*
- withdrawal of the Commonwealth from collecting equalisation levies, resulting in some states introducing their own equalisation levies, has added to the legal uncertainties. It also creates additional incentives for interstate trade;
- the ACT/NSW marketing situation, where half the ACT production is exported to NSW and a similar amount imported back into the ACT from NSW, which is felt by some marketing authorities to be extremely de-stabilising, and which sets a precedent for interstate trade;
- continuing high equalisation charges and surplus production (though the Working Party notes that the level of export surplus has declined in recent years);
- the persistent problem with illegal producers in New South Wales;
- price differences between states which appear to be large compared to transport costs.

Some of these pressures will increase with the passage of time.

6.5 In the longer term, change appears to be inevitable. This is accepted to some degree by the industry and the marketing authorities. For example, the Australian Egg Marketing Council said that:

'There is now wide recognition in the industry that equalisation levies must be minimised or entirely eliminated...'

and the Australian Council of Egg Producers pointed out that better management is needed to reduce surpluses.

6.6 It is possible that the system could collapse rapidly in an uncontrolled fashion. A breakdown in one state could spread rapidly through interstate trade to adjacent states.

If there were a rapid collapse, then there would be large adjustment costs. It is likely that egg prices would fall sharply, quotas would become worthless, the number of farms would fall, farms would become larger, and production would relocate close to centres of population and areas of low cost production. Some degree of vertical integration could occur, but there is no evidence that industry concentration would take place to the degree which has occurred in the chicken meat industry. It is possible that retail power would increase and that retail margins would be higher.

The sectors of the industry where the shock would be greatest are those where: cost structures are high; there are many small farms; there are restrictions on resource mobility; market signals are distorted by price equalisation; and, there are no geographical barriers to trade.

6.7 There appear to be two broad policy options:

1. To attempt to prop up the current system relying, for example, on uniform grading requirements to regulate interstate movement of eggs, and possibly requiring Commonwealth participation;
 - *the Working Party considers this option hazardous and recommends against;*
2. To improve the stability and efficiency of the system in order to gain time for adjustment, and to put in place policies which will reduce the adjustment costs in the event of uncontrolled change;
 - *the Working Party recommends this course of action, and has developed a set of specific options directed at this objective.*

6.8 Primary responsibility for action rests with the states and territories, though there is some scope for coordination through Agricultural Council. Furthermore, state and territory systems are quite different, and a range of options is presented by the Working Party to reflect this fact. The Working party notes that most governments are committed to a degree of regulation in the medium term and to the maintenance of a viable state or territory based industry.

6.9 The following specific options are presented. The options are progressive, each going further towards a more

uniform and flexible system. It is up to each state or territory to assess where it is now and how far it should progress along this scale.

A. Lower industry cost structure, improve resource mobility:

- increase the maximum farm size limit to gain economies of scale (5.2.1);
- increase licence exemption level to reduce enforcement and administration costs (5.2.2);
- remove quota transfer restrictions within states (5.2.3);
- allow leasing of quota (5.2.4).

B. Cease price equalisation and surplus production, improve both price and quantity flexibility. There are a range of alternative approaches. Either:

- improve quota administration and enforcement to reduce surplus (5.3.1); or
- price differentially so that payments to producers reflect end uses (5.3.2, 5.3.4); or
- allow prices to be set competitively by
 - introducing effective competition to the marketing authority (5.3.5.); or
 - requiring the marketing authority to withdraw from price setting (5.3.7); or
 - no longer vesting eggs in the marketing authority (5.3.6).

C. Adjust quota alignment between states and territories (where quotas apply) in order to prevent the emergence of large egg price differences across state or territory borders. Either:

- adjust quotas without formal consultation (5.4.1); or
- periodically review and reset national quota allocations under the coordination of Agricultural Council (5.4.2); or
- allow interstate transfer of quota (5.4.3).

D. Prepare to phase out quota.

This could only be done if price flexibility had first been restored. If so desired, quotas could be phased out by a combination of:

- announcing a future sunset date for quota (5.5.2); and
- reducing quota values by quota administration and egg pricing control (5.5.3); and
- buying out quota holders (voluntary compensation) (5.5.4).

Despite industry claims to the contrary, it is unlikely that there would be any legal requirement to pay compensation.

More detail on each of these options is set out in Chapter 5. Some of the main features of this progressive scale of

options are set out in Table 6.1.

6.10 Finally, the Working Party notes the issue of retail concentration and retail margins. It is possible that freeing up egg marketing would lead to greater retail marketing power and higher margins, though the evidence is not clear. In the worst case higher retail margins could negate the consumer benefit from freeing up egg marketing. The competitiveness of retailing is an issue of general concern not restricted to eggs. Research on this issue would be valuable.

Producers should be aware of the above report and recommendations. This report on the industry can only be described as constructive and certainly not in the negative vein of previous reports from various parties.

Most Producer Organisations have complete copies of the report and we can only recommend that all Producers ensure that they attend the various organisation's meetings so that they may enter into discussion on the report and make their views known to the authorities through the recommendations of their Producer Organisations.

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Stop Press

Below is a Press Release from the Minister for Agriculture and Rural Affairs N.S.W.

Government Releases Egg Industry Review

The Minister for Agriculture and Rural Affairs, Ian Armstrong, today released the review of the current system of egg industry regulation in NSW, undertaken by the Independent consultants ACIL Australia Pty Ltd.

'The consultants have found that the current system of egg industry regulation is not sustainable and operates against the best interests of the industry and consumers,' Mr Armstrong announced.

The consultants recognised that existing producers have a substantial investment in the current system of regulation and that any changes to that system would need to allow them to position themselves during the transition period to be able to compete effectively in a deregulated market.

The consultants have recommended a package of reforms which will provide for the transition to a deregulated industry over a period of two years from the date of implementation.

Key elements in the consultant's proposed package of reforms are:

- Maintenance of existing quotas during the transition period to avoid the potential disruptive and

costly effects of immediate deregulation. Persons who operate outside their quotas during the transition period would need to be prosecuted.

- In further recognition of the investment made by existing producers in hen quota, the Egg Corporation would be converted to a private company, the shares in which would be divided between existing licenced producers on the basis of their quota holdings at the date of announcement of the new system being introduced. The share capital would comprise a 60% holding by an egg producers' co-operative consisting of existing producers and a 40% public share issue also made to existing producers which may be freely tradeable. The new company would be established at the start of the transition period and therefore be given the opportunity to establish its position in the market place before deregulation.
- A significant reduction in levies paid by producers to occur once the new legislation is in place. The only remaining levies will be for the activities of a revamped Licensing Committee and research and development.
- Quota holders would be free to sell their eggs wherever they want to,

during the transition period.

Mr Armstrong said that the consultants' report revealed that ACL had approached the problem in a thorough and sensitive fashion.

'Before deciding how the Government will proceed in the light of this report, the Government wishes to allow until January 31, 1989 for the industry and public to digest, reflect on and comment on the report's findings. The Government will then decide its course of action', Mr Armstrong said.

'In the meantime the Government will enforce the current legislation. We are not about to allow the existing system to collapse without an orderly change—we cannot risk disruption either to producers or consumers'.

'I must reinforce that the Government has made no decision on the Report's recommendations and will not consider the report until after the period of public discussion.'

Mr Armstrong said that copies of the report are available for \$5 per copy from the NSW Agriculture & Fisheries Publication Sales Centre, Level 3, McKell Building, Rawson Place, Haymarket, NSW 2000.

A series of public seminars are planned to provide an opportunity to explain the report's recommendations.

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