

MINISTERIAL STATEMENT ON EGG MARKETING

In this statement I shall outline the Government's response to the reports by the Public Bodies Review Committee on egg marketing arrangements, and indicate the legislative changes which are proposed.

THE PUBLIC BODIES REVIEW COMMITTEE INQUIRY INTO EGG MARKETING

The Public Bodies Review Committee, after an extensive inquiry, reported to the Parliament in November 1987 on the Poultry Farmer Licensing Committee, the Poultry Farmer Licensing Review Committee and on the Victorian Egg Marketing Board. These are three of the sixteen agricultural marketing boards and authorities being reviewed by the Public Bodies Review Committee. The Committee has concluded that there are serious problems with the current egg marketing arrangements. This conclusion is consistent with the findings of a number of earlier inquiries into the Victorian egg industry.

The Public Bodies Review Committee made extensive and detailed recommendations for reform of egg marketing in Victoria. Before responding in detail to these recommendations, I would like to make some general comments on the key considerations that shaped the Government's response.

The egg industry is an important rural industry. There are currently around 400 licensed egg farmers in Victoria, and the industry has a gross annual product of about \$80m. If we count only egg farms with a quota larger than 1,000 hens, then there are around 200 of these farms in Victoria with an average size of around 13,500 hens.

The Government's policy is to encourage the development of the egg industry within Victoria. However there is evidence that constraints under the existing legislation are restricting the ability of producers to adjust and to adopt new innovations. For example controlled environment shedding, which is the most efficient production system, is common in other countries but has been only slowly adopted in Victoria.

Another major consideration from the point of view of producers is the potential threat from interstate trade in eggs. The Government wants the Victorian egg industry to be able to withstand competition from eggs produced interstate. In particular, the Victorian industry needs to be fully competitive with that in New South Wales. We do not want to find ourselves in the position that New South Wales does with milk. In the milk industry the slowness of the New South Wales industry to adjust and maintain its efficiency has made it vulnerable to more efficiently produced and lower cost milk from Victoria.

The Government also has a responsibility to ensure that the needs of consumers are adequately considered. This is particularly the case in an industry where producers have effective control over both the price of eggs and the quantity produced, and where the major beneficiary of the legislation is a small number of egg producers. There is evidence from the Public Bodies Review Committee and from recent reports of the Prices Commissioner that eggs are over priced. If steps

Statement made by the Honourable Evan Walker, Minister for Agriculture and Rural Affairs, in the Victorian Parliament on Wednesday 4th May 1988.

are taken to improve the overall efficiency of the egg industry then there is scope for both producers and consumers to benefit.

For some time now I have been of the view that the egg industry is suffering from excessive regulation. The Government does not propose to deregulate the industry to the extent proposed by the Public Bodies Review Committee. However, steps are proposed which will free up the industry. A regulatory framework will be retained but producers will have greater scope to secure profitable marketing opportunities for their eggs.

A major and continuing role is envisaged for the Egg Marketing Board. The Board has the marketing experience, the expertise and the scale to remain the dominant marketing agency. It is expected that most producers will continue to market their eggs through the Board.

In order to make these changes, all legislation relating to the egg industry will be reviewed and consolidated in a new Act. Draft legislation will be prepared and released for comment by industry and the public in the Winter Recess. This will allow legislation to be introduced in the Spring Sittings of 1988.

IMPACT AT THE FARM LEVEL

The maximum farm quota will be increased to 80,000 hens. Safeguards will be included to ensure that the farm size limit can not be evaded by multiple ownership or artificial business structures. For example, where a poultry farmer is a corporation, then the maximum limit will apply not only to that corporation but also to any corporation related to it within the meaning of the Victorian Companies Code.

The Licensing Committee will also be given a general power to refuse to issue a licence or to cancel a licence where it reasonably believes that the applicant or licensee is party to an arrangement designed to circumvent the limit. New South Wales legislation includes a similar provision. These measures will prevent undesirable concentration of ownership emerging in the industry.

At present producers keeping less than 20 hens are exempt from licensing and quota requirements. The Public Bodies Review Committee recommended that producers with less than 500 laying hens should be exempt from licensing and quota requirements. After consideration of industry representations it has been decided to set the exemption level at 50 laying hens.

The operation of the hen quota tender pool will be improved to make it more flexible and efficient. There will no longer be a limit on the amount of quota which can be bought at one time. This will lead to increased efficiency at the farm level and for the industry as a whole. Industry adjustment will be facilitated by easier entry and exit by producers. Producers with excess capacity will be able more easily to fill their sheds. These arrangements will allow quota values to be determined on a more realistic basis.

Leasing of quota will also be permitted provided that the maximum farm size restriction is observed.

QUOTAS

The Public Bodies Review Committee recommended that quotas be phased out over a period of seven years. It also recommended that there be consultation at a national level through the Australian Agricultural Council prior to phasing out quotas. This process of consultation is already under way, and the results will be available for consideration before legislation is finalised.

For the present, quotas will remain, with a maximum quota size of 80,000 hens. However any consideration of the long term future of quotas must take into account whether quotas sustain an industry which is vulnerable to a breakdown in national quota arrangements.

In discussing the Victorian licensing and supply control system, the Public Bodies Review Committee said:

"If unaltered it will place the Victorian egg industry at a competitive disadvantage to New South Wales ... The current trend towards deregulation of marketing in Australia renders the existing institutional framework potentially dangerous to the State's egg producers."

The Committee also reported that quotas have tended to discourage investment in new technology.

I am concerned that the Victorian industry develops in a way that keeps it competitive nationally, and it appears that quotas may not be in the long term interest of the industry. For these reasons I propose that there will be a mandatory review of quotas in 1994.

EGG MARKETING

Changes to the role of the Egg Board

The Public Bodies Review Committee recommended that eggs no longer be vested in the Egg Board. It recommended that ownership of eggs should remain with the producers, who would be free to sell to whomever they chose. The reason for this recommendation was that the Committee wished to remove the monopoly marketing position of the Egg Board and to introduce competition in egg marketing.

Careful consideration has been given to this recommendation and to the views of the industry. It appears that many of the objectives of the Committee could be achieved by exposing egg marketing to greater competition while retaining vesting.

Eggs will continue to be vested in the Board. However the Board will be exposed to greater competition than in the past and producers will be given greater freedom in the handling of their eggs.

Board members and the chairman will be appointed by the Governor-in-Council and will, as in the past, serve for a period of up to three years. The Board membership will however be enlarged by one to seven to include a representative of employees in the industry.

The Board's objectives, functions and powers will be clarified in the new legislation. The Board's reporting requirements will be strengthened, as

recommended by the Public Bodies Review Committee. This should assist the Board to operate successfully in the new commercial environment.

The main objectives recommended by the Committee are:

- . to provide for orderly marketing in the Victorian egg industry;
- . to market eggs in a competitive manner without limiting the ability of others to market eggs efficiently;
- . to provide advice to the Licensing Committee about the anticipated demand for eggs in order to aid the Licensing Committee in determining the quantity of issued quota to match the supply and demand for eggs.

The functions of the Board will be largely unchanged. The Board will continue to market all eggs consigned to it by producers. The Board will remain the key spokesperson for the industry and will facilitate the dissemination of industry wide information. The Board will be able to advertise and to undertake commercial initiatives as at present.

Other functions will be:

- . to determine standard egg grades in consultation with the industry;
- . to enforce minimum quality control standards for the industry;
- . to determine egg prices, in consultation with an independent Tribunal chaired by the Prices Commissioner;

The Board will finance its operations from charges for services provided to producers whose eggs it handles. This means that the operations of the Board will not be cross subsidised by general industry levies on producers who do not use its services.

Separate provision will be made however, using the vesting powers of the Board, to finance industry wide services such as quality control, research and development, generic advertising, and quota and licensing administration. Measures will be taken to ensure a high level of accountability and consultation with the industry in the use of these funds.

More competition for the Egg Board

Producer Agents and other Authorised Agents already play an important role in the industry. Producer Agents can grade, pack and market through approved outlets the eggs which they produce. The Producer Agent system will be expanded to provide greater access to the market place. The Board is currently negotiating with Producer Agents to provide for greater access to supermarket stores.

A Producer Agent Licence will be issued by the Board and be available to any applicant who can meet terms and conditions similar to the licence conditions which operate successfully in the dairy industry. The main grounds for refusing a licence will be that the applicant does not meet the requirements of the new legislation or of any other legislation dealing with health and hygiene matters, or that the applicant is not a fit and proper person to hold a licence. If a licence is refused then reasons will have to be given in writing. Provision will be made for

appeals to the Administrative Appeals Tribunal. Eggs delivered to Producer Agents for sale will be deemed to have been delivered to the Egg Board for the purposes of the vesting rule.

Within the terms of their licence Producer Agents will be free to grade, pack and market their own and other producers' eggs. They will be free to undertake commercial initiatives and to develop their own brands, packaging, marketing strategies and advertising methods. They will be able to sell their eggs to whomever they choose, including supermarkets and manufacturers of egg products. They will also be able to manufacture on their own behalf.

Producer Agents must operate within any pricing guidelines set for the industry. Producers will be able to market their own eggs if they hold a Producer Agent Licence. Producers who do not wish to do so can always consign their eggs to the Egg Board as at present.

It is anticipated that most eggs will continue to be marketed through the Egg Board. The Board has many years of experience and has established a reputation as a reliable supplier of high quality eggs. The Board has modern equipment and the advantages of scale, and it is highly efficient in many areas. It is expected that Producer Agents will be active in areas where the Board has no comparative advantage and does not wish to compete. The existence of potential competition will, however, encourage the Board to maintain and improve its marketing efficiency.

Quality control

Legislation will give the Minister authority to prescribe quality control standards by regulation. Before doing so there will be consultation with the Egg Board and the industry. These standards will be enforced by the Egg Board. It is proposed, however, that only minimum standards will be prescribed and that prosecution be through the court system. The same minimum quality standards will apply both to the Board and to Producer Agents.

The Egg Board may wish to set additional quality standards beyond those prescribed by regulation for the eggs which it handles and markets. Producer Agents will not be able to sell under the Egg Board brands, except by agreement with the Egg Board. In this case they would have to meet any requirements set by the Board, including compliance with the Egg Board's own quality standards.

THE LICENSING COMMITTEE

The Poultry Farmer Licensing Committee will be renamed the Egg Industry Licensing Committee. It will play an expanded role in the industry and will be more independent of the Egg Board. The Licensing Committee will continue to administer quota and license producers.

The Public Bodies Review Committee reported in detail on the Licensing Committee and criticised the existing arrangements. Under the new legislation the Licensing Committee will comprise four persons appointed by the Minister. The chairperson will be appointed by the Minister. The Licensing Committee will normally have some overlap with the membership of the Egg Board. However there will be at most one egg producer on the Licensing Committee and it will be chaired by someone other than the chairperson of the Egg Board.

The main objectives of the Licensing Committee recommended by the Public Bodies Review Committee are:

- to allocate equitably the Victorian portion of the national hen quota in line with market requirements;
- to allocate efficiently the Victorian portion of the national hen quota in line with market requirements;
- to adjust issued quota in line with market circumstances.

The functions of the Licensing Committee will include:

- the licensing of egg producers;
- the determination of the quantity of issued quota;
- the administration, allocation and adjustment of issued quota;
- the operation of the hen quota pool.

The Poultry Farmer Licensing Review Committee will be disbanded, as recommended by the Public Bodies Review Committee, and the responsibilities transferred to the Administrative Appeals Tribunal.

EGG PRICING

Egg prices have been a source of continual controversy and concern in the industry. It is true that egg prices have not risen as fast as the price of other food items in recent years. Costs of egg production have trended downward in real terms as a result of advances in the way that hens are housed and fed and because of breeding improvements. In recent years lower grain prices have further contributed to lower costs of producing eggs, though these effects may be temporary. However these cost savings have not been passed on to the consumer to the extent that they should have been.

Egg prices will no longer be set solely by the Board as in the past. The price review process which has worked successfully in the milk industry will be adapted so that prices are set fairly for both producers and consumers.

This will work as follows:

- . the Egg Board will be required to determine the price of eggs at regular six monthly intervals;
- . this determination will be referred to an independent Tribunal chaired by the Prices Commissioner;
- . within two weeks the Tribunal will either ratify the price determination or refer the determination back to the Egg Board;
- . the Tribunal will take into account the cost of production, production surpluses or shortfalls, quota values, interstate egg prices, the views of the Licensing Committee, and any other factors which it considers relevant;
- . the price determination will only become effective when ratified by the Tribunal.

In making its price determination, the Egg Board will observe the following principles:

- . the Egg Board will set a maximum and minimum wholesale price at each point in time;
- . the Egg Board will have a reserve power to set a maximum retail price;
- . these prices will apply only to the standard major grades of eggs;
- . there will be provision to vary prices automatically in line with movements in feed prices.

The wholesale price band will be wide enough to allow minor realignments of grade prices and seasonal price variation to match supply and demand.

EFFECTS ON THE INDUSTRY

I see a positive outcome for the industry from these changes. Victorian producers are eager to invest and modernise, but have been hindered by farm size limitations, by restrictions on quota transfer, and by uncertainty about the future of the industry. Over the years there have been repeated inquiries and public controversy which have made any business planning or large scale investment very difficult.

The industry should now have the opportunity to undertake the modernisation which it desires. The result should be an efficient, low cost industry which can compete favourably with those of other states. Any tendency towards undue concentration will be prevented by the maximum farm size of 80,000 hens and the restrictions on cross ownership.

It is likely that there will be greater diversity in the products offered as well as in the packaging and marketing. Specialty products such as free range eggs may provide a profitable niche for some smaller scale farmers.

The Board will continue to play a dominant role in egg marketing. It is unlikely to be challenged in the areas where it is most efficient. Competition is to be expected at the margin and in areas where the Board does not wish to compete. However the threat of potential competition should assist the Board to maintain and increase its efficiency and to reduce costs.

CONSULTATION WITH INDUSTRY

The Public Bodies Review Committee undertook extensive consultation with industry. It called for background information and solicited submissions, it held public and private hearings, and it undertook a series of inspections and visits.

After the Committee reported, industry was again invited to comment. Extensive written submissions were received and the Minister has met on a number of occasions with industry representatives to discuss the Committee's recommendations.

As recommended by the Public Bodies Review Committee, consultation on quotas has been initiated at a national level through the Australian Agricultural Council. Victoria is chairing a Working Party which will examine this issue and report in July.

The views of industry have received careful consideration in formulating the Government's response to the Public Bodies Review Committee Reports. Industry now has a further opportunity to comment, and I look forward to receiving submissions on the Government's legislative proposals.

The reforms which I propose should alleviate the problems which have been identified in the Victorian egg industry over many years in numerous enquiries. They should allow the industry to modernise and adopt the latest cost reducing technology, and ensure that it can compete effectively with the egg industries of neighbouring states. There will be greater competition in egg marketing, but the Egg Board will continue to play a dominant role. The pricing of eggs should be fairer, both to producers and consumers.

I look forward to the active cooperation of the industry in implementing these reforms.