CRYSTAL EGG COMPANY
Authorised Agent
Victorian Egg
Marketing Board

Garsed Street Bendigo
Victoria 3550
Post Office Box 4
Phone (054) 431911
Fax: (054) 41.2615
RAG:gp:CEG
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Dear Producer,

SOME PRELIMINARY THOUGHTS ON DEREGULATION OF THE N.S.W. EGG INDUSTRY AND ITS LIKELY IMPACT ON VICTORIA

No doubt producers are alarmed at the deregulation of the egg industry in New South Wales which took place recently. In order to assess the impact, careful analysis of all the trends is needed. It should be understood that the VEMB still has control over interstate eggs which under Section 92 of the Constitution cannot be prevented from coming into Victoria. However, they still must be graded in Victoria, and the Board still has the power to say where they are graded. Under the vesting provisions in the new Egg Bill, they must be received and graded, but at a fee appropriate for the services sought and provided.

Nothing can happen in the short term as NSW is consuming every egg it produces. So is Victoria. In fact in both States there is currently a shortage of shell eggs to supply the domestic market and rationing is occurring. It will take a farmer at least six months to acquire new hens at point of lay, so production cannot increase inside six months.

There are three scenarios. Production will either increase, decrease, or stay about the same. Thoughts on these are as follows:

A .. REASONS WHY SUPPLY IN NSW MIGHT INCREASE ABOVE DOMESTIC DEMAND

(1) Hen Quota NSW Government is to pay $15 per hen refund to farmers. This is sufficient to increase capacity with new shedding on all farms by 50% as it costs around $30 per hen to set up a farm. In the medium term the investment of these funds could increase production to a level greater than the local demand.

(2) Excess Capacity Farmers could elect to fill empty cages brought about by quota reductions. This would have these farms operating at 100% capacity and would therefore increase production. Again the hens would not be available for six months.

(3) Retail Marketing Some producers may be able to gain additional shops to supply over and above their normal sales, which would displace other producers' eggs. Should this occur, the first farmer in this scenario would need to increase production to provide the eggs, and the second farmer's eggs would be surplus.

(4) Price Differential between the States There could be a desire on the part of a NSW producer to supply long term part of the market in Victoria. This desire could be motivated by price differential. A few weeks ago, Victoria's wholesale price was 15 cents per dozen less than that in NSW. After deregulation, the wholesale price in NSW was dropped by 30 cents a dozen, making the price there 15 cents a dozen under Victoria. Victoria is soon to reduce its price by eliminating many administrative costs.

Point (2) will have the biggest effect in the short term, followed by Point (1). Quantifying these is very difficult, but hatchery figures will give a guide.

B .. REASONS FOR LITTLE CHANGE IN PRODUCTION IN NSW

Supply currently equals demand. Some producers will be discouraged from producing extra eggs because they will have no domestic market for them, and interstate prices will have equalised, thus providing a disincentive to attempt this. Some producers will leave the industry and it is thought that some will increase their capacity. These could just about match up in terms of eggs produced.

C .. REASONS WHY SUPPLY MAY FALL IN NSW

Farm Sales: 45% of eggs produced in NSW are produced on farms that are within a radius of 50 kilometres from the Sydney GPO. Many are on the outskirts of suburbia and are ripe for subdivision. Armed with the hen levy, many producers could sell the land and leave the industry for fear of a production oversupply and a dramatic fall in egg price. Many of these farms have very old sheds which need replacing. These farmers are now at the cross roads and must make a decision to either modernise and stay in the industry or sell up and get out. It is felt that several will sell up and get out.

Farm Debt: It is thought that some farmers may use the $15 hen levy refund to retire from debt and not use it to expand or modernise their farms. Average farm debt in NSW is greater than in Victoria and is approx. $300,000 per farm. The average pay-back per farm by the Government for hen quotas will be $250,000 per farm.

Conclusion:

If Victoria can keep its price close to the NSW egg price on a wholesale basis, there will be no incentive for eggs to cross the border. Already the VEMB has restructured its administration charges and levies to bring this about.

Supply equals demand in NSW and overproduction no longer exists. Returns to producers are low, but adequate to keep the industry meeting the current demand for shell eggs.

Our predictions for the changes to occur in NSW in the medium term will be:

(i) A battle between producers for supermarket contracts with the supermarkets being able to drastically reduce price to producers (little or no benefit will be passed on to consumers as occurred in NZ and UK). Alternatively, a producer cartel will form to control egg supply. Small producers will be ignored, and will not be part of it. Producers must stick together and try to act as one industry or they will tear each other to pieces. Already 90% of NSW producers have signed a statement of intent to keep the industry together.

(ii) The growth in egg production around Sydney and the reduction in production around Tamworth as competition for the marketplace occurs. Country areas will become selfsufficient with a few exceptions, e.g. Griffith. The Tamworth situation will depend on whether or not the producers there are able to form an effective co-operative or not.

(iii) Quality of eggs will fall in an attempt to cover the reduced returns offered by supermarkets.

(iv) A fall in egg consumption in NSW (estimate 10%) as a result of no generic advertising by the Egg Board there.

(vi) Hatcheries will provide early data on indications of production levels in six months' time.

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At the industry meeting held at the Egg Board on the evening of August 8, the following points were made:

(1) Good Foods Australia since July 1 is now only an advisory company. Each State looks after its own products manufacturing and distribution.

(2) Quota value in Victoria probably now only has a nominal value. The Minister advised that no compensation could be made available in Victoria.

(3) The quota cut of 18% due for September 4 has been recommended to the Licensing Committee which still has to consider it. Production levels in the State will be closely monitored right up until this time to see if the cut should be modified.

(4) The State is still 30-40,000 dozen eggs a week short to meet domestic sales.

(5) In SA producers demanded compensation from their Minister for Agriculture as they claimed their hen quotas were now valueless.

(6) Victoria's Minister for Agriculture stated that the new Egg Bill recently proclaimed on August 2 places Victoria's egg industry in a very strong position to meet competition from anywhere.

(7) It was agreed the Minister be invited to a future meeting with producers to seek from him an assurance that the Labor Government will not walk away from supporting Victoria's egg industry.

The impact of deregulation in New South Wales provides an opportunity for NSW producers to send eggs to Victoria. If the Victorian industry stays together, has prices very close to NSW prices and is strong in its resolve to fight any incursion of NSW eggs onto the market in Victoria, then the Victorian industry should have no fears.

Yours sincerely,

RICHARD A. GUY
Managing Director