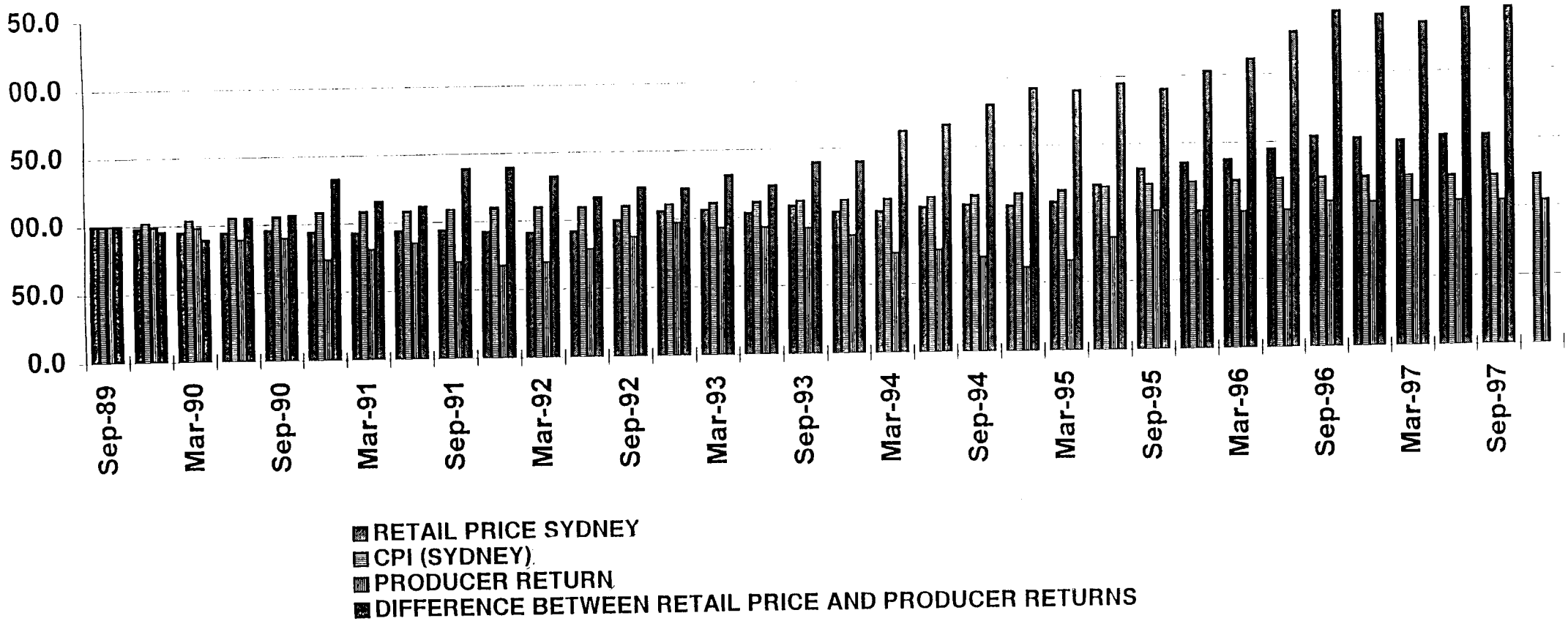
Attachment 1

SHELL EGGS- RELATiONSHIP BETWEEN RETAIL PRICES, CPI AND PRODUCER RETURNS

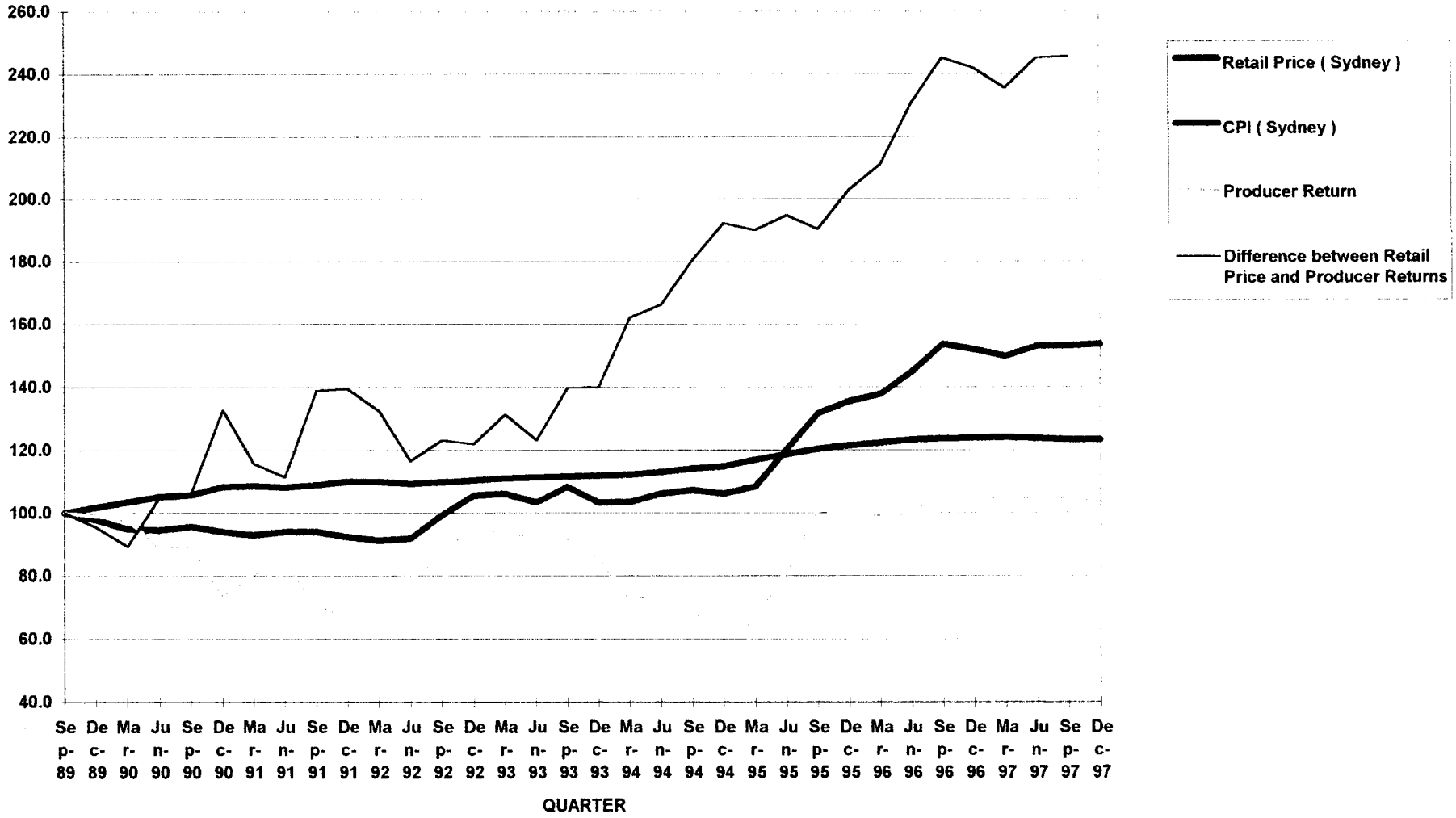
QUARTER	RETAIL PRICE SYDNEY a	CPI SYDNEY b	PRODUCER RETURN c	DIFFERENCE
Sep 89	100.0	100.0	100.0	100.0
Dec 89	97.8	101.8	99.0	95.5
Mar90	95.0	103.5	98.0	89.4
Jun 90	94.5	105.1	89.0	105.0
Sep 90	93.6	105.7	89.9	106.5
Dec 90	93.9	108.3	73.7	132.7
Mar91	92.8	108.5	80.8	115.8
Jun 91	93:9	108.1	84.8	111.5
Sep 91	93.9	108.8	70.7	138.9
Dec91	92.3	110.0	67.7	139.4
Mar 92	91.2	109.9	69.7	132.4
Jun 92	91.1	109.3	76.8	116.5
Sep 92	99.4	109.8	87.1	123.2
Dec 92	105.5	110.3	97.0	121.9
Mar 93	106.1	111.1	92.9	131.3
Jun 93	103.3	111.3	92.9	123.2
Sep 93	108.3	111.5	91.9	139.8
Dec 93	103.3	111.8	85.9	140.0
Mar 94	103.3	112.1	72.7	162.1
Jun 94	106.1	113.0	74.7	166.3
Sep94	107.2	114.0	68.9	180.6
Dec94	106.1	114.8	61.2	192.2
Mar 95	108.3	116.8	65.7	190.0
Jun 95	120.4	118.6	81.8	194.7
Sep 95	131.6	120.3	100.8	190.3
Dec-95	135.4	121.4	100.2	202.9
Mar-96	137.6	122.2	99.3	211.0
Jun-96	144.6	123.1	100.0	230.6
Sep-96	153.6	123.5	105.9	245.2
Dec-96	151.9	123.7	105.0	241.9
Mar-91	149.7	123.9	105.0	235.5
Jun-97	153.0	123.6	105.0	245.2
Sep-97	153.0	123.2	104.9	245.5
Dec-97		123.1	104.2	

sources: a Australian Bureau of Statistics "Average Retail Prices of Selected Items Eight Capital Cities" - Cat No .40340.
b Australian Bureau of Statistics "Consumer Price Index" - Cat No 6401.0
c Indicative Producer Return Australian Egg Industry Association

SHELL EGGS - RELATIONSHIP BETWEEN RETAIL PRICES, CPI AND PRODUCER RETURNS

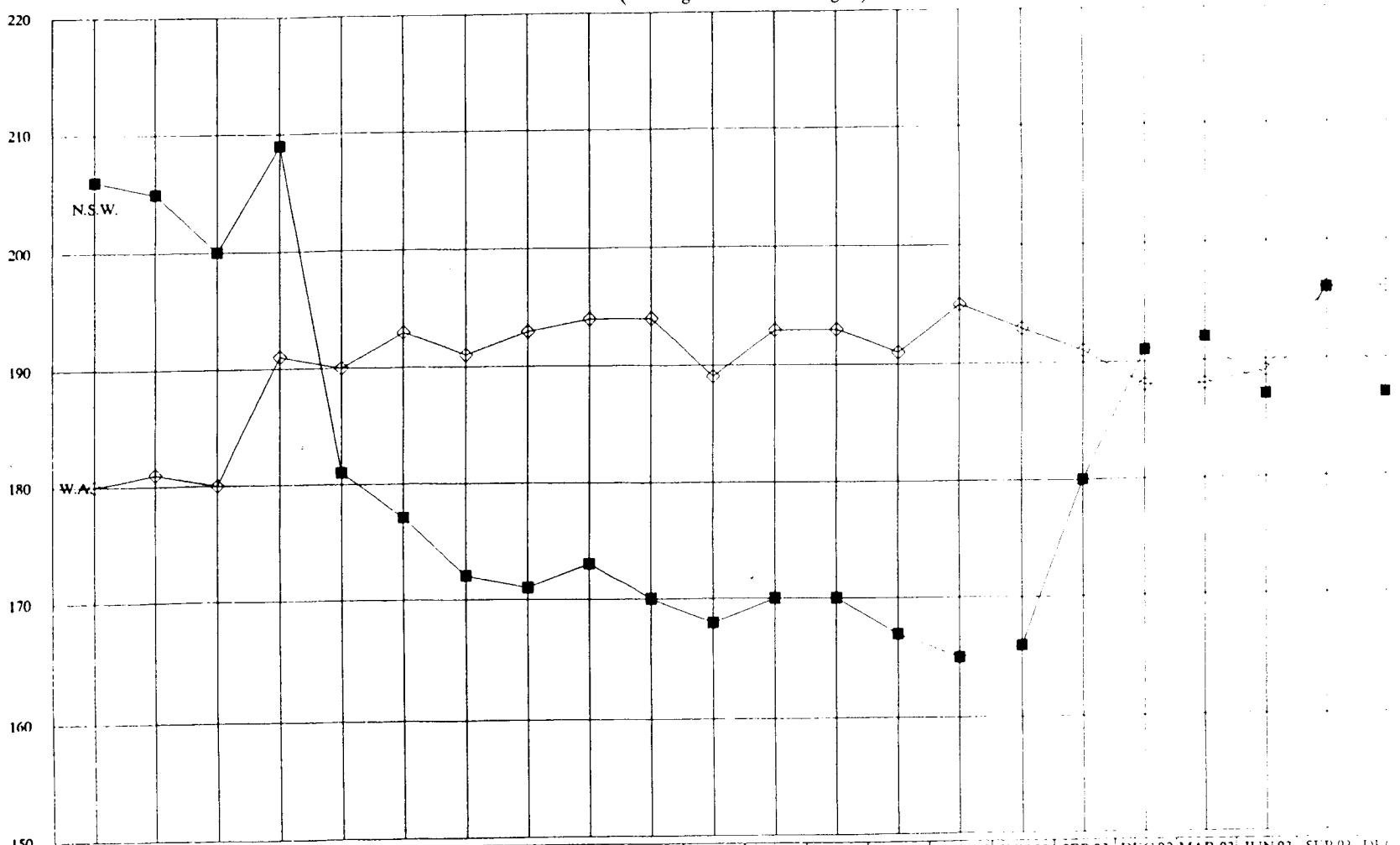


SHELL EGGS - RELATIONSHIP BETWEEN RETAIL PRICES, CPI AND PRODUCER RETURNS (Sydney)
Sept 89 to Dec 97
Base : Sep 89 = 100.0



EGG PRICES (c/doz) – Source: A.B.S.

(Average Retail Price 55 gm)

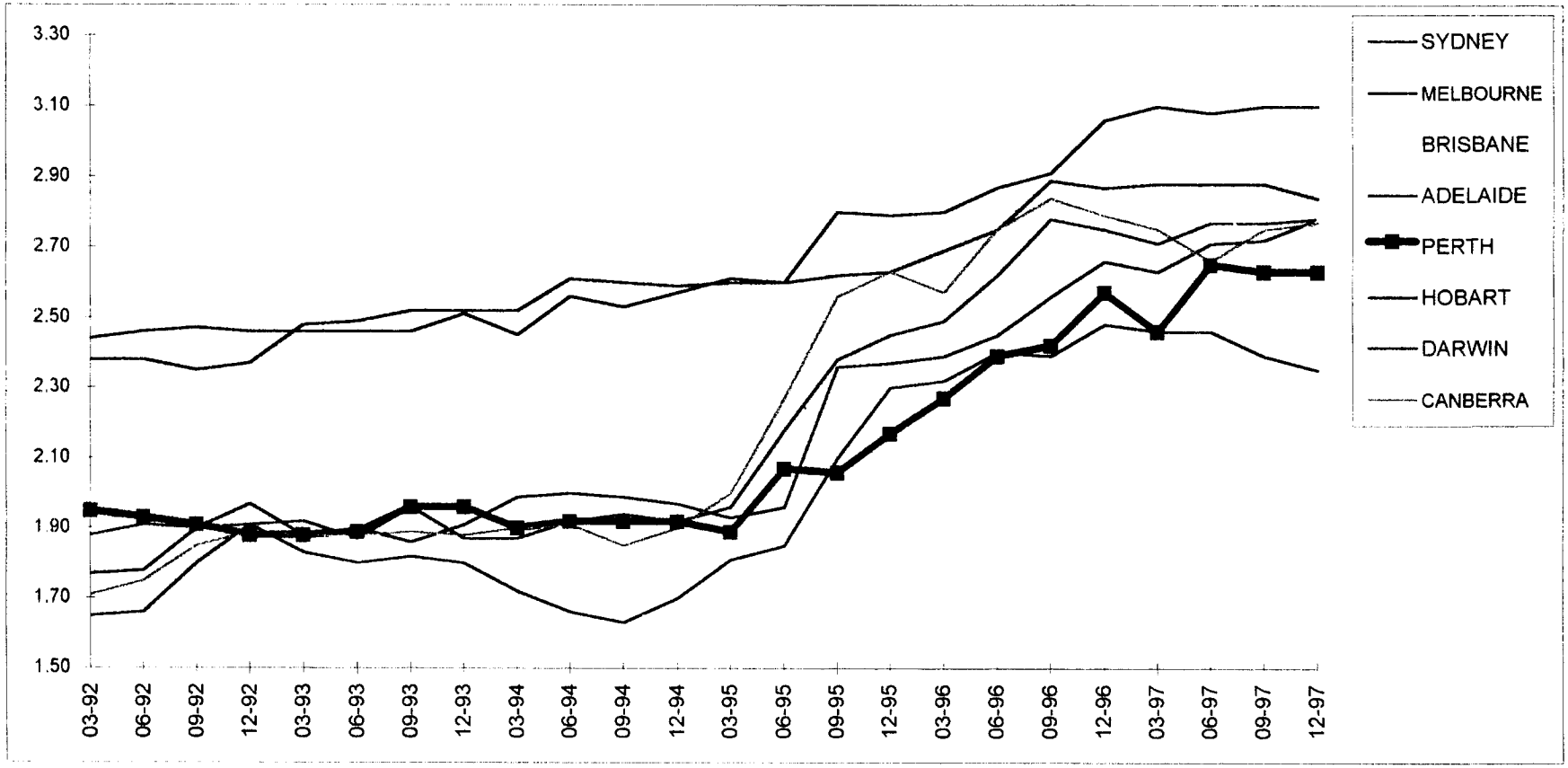


	SEP 88	DEC 88	MAR 89	JUN 89	SEP 89	DEC 89	MAR 90	JUN 90	SEP 90	DEC 90	MAR 91	JUN 91	SEP 91	DEC 91	MAR 92	JUN 92	SEP 92	DEC 92	MAR 93	JUN 93	SEP 93	DEC 93
■ N.S.W.	206	205	200	209	181	177	172	171	173	170	168	170	170	167	165	166	180	191	192	187	196	[illegible]
◇ W.A.	180	181	180	191	190	193	191	193	194	194	189	193	193	191	195	193	191	188	188	189	196	[illegible]

EGG RETAIL PRICES

PER 50-55GRAM
SOURCE ABS

Attachment 5



CAPITAL COSTS FOR ESTABLISHING A MODEL COMMERCIAL EGG PRODUCTION FARM

FARM FLOCK SIZE	NO. LAYERS
Base quota	30,000
Operating quota:	21,000
Mortality allowance	2,400
Total flock size:	23,400

SHED REQUIREMENTS

3 layer sheds of 7,800 plus	
1 overlap shed of 7,800	
Total shed capacities 4 x 7,800	31,200

REARING CAPACITY

1 x 7,800 pullet shed - 3 intakes per year	23,400

PROJECT COSTS	$
LAND	
50 acres within 50 km of Perth @ $4,400 per acre or 100 acres within 100 km of Perth @ S2,200 per acre	220,000
RESIDENCE	
4 bedroom, 2 bathroom, brick and tile. Painted, carpeted and tiled and landscaped ready for occupation.	160,000
POULTRY SHEDS	
4 x 7,800 = 31,200 layers @ $10-50per bird	327,600
1 x 7,800 pullet rearing shed @ $10.50 per pullet	81,900
CAGE UNITS	
4 x 7,800 31,200 layers~$15.50perbird	483,600
1 x 7,800 pullet rearing cage unit ~ $10.70 per bird	83,460
SITE COSTS	
5 sheds ~ $5,000	25,000
Concrete hard stands - 5 @ $1,500	7,500
ROADWAYS	
400 metre limestone - 150 mm plus	
50 mm roadbase topping @ $32 per metre	
SECURITY FENCING	
2 metre chainlink plus 0.5 m barbed wire topping. 1120 m ~ $17.00 per metre	19,040
BOREHOLES & PUMPS	
2 units 30 metres deep - 10hp pumps	20,000
WATER STORAGE	
2 x 54,000 litre tanks @ $4,500	9,000

		$
SHED TANKS		
5 x 4500 litre tanks and stands ~ $2,600		13,000
STANDBY GENERATOR		
50 KVA unit with automatic panel including shed		24,500
ELECTRICS		
Supply from mains to all sheds including power boxes and motor connections		42,500
Flourescent lights to all sheds		9,120
MACHINERY SHED		
Steel shed 20m x I5m x 4.2m erected		29,400
EGG ROOM		
12m x ~5m x 3.6m erected		22,700
COOL ROOM		
3.6m x 4.8m x 2.2m installed		9,000
SPRINKLERS		
Butterfly sprinklers between sheds including pvc piping and fittings		6,000
PLUMBING		
From bores to tanks to sheds 5 x $1,000		5,000
LANDSCAPING		
Tree, shrub and grass planting - Farm beautification and screening		6,000
MISCELLANEOUS COSTS (PROVISIONAL).		
Consultant Engineer's fees	$3000	
Legal costs	$2000	
Shire costs	$1500	
Building Insurance	$3000	
Accountant's fees	$2000	
		11,500
GRAND TOTAL :		**$1,628,620**

COST PER BIRD	
31,200 layers	$52.20
39,000 layers and pullets	$41.76

SUPPLEMENTARY SUBMISSION BY

THE POULTRY FARMERS ASSOCIATION OF WA (INC)

ON THE REVIEW OF THE

MARKETING OF EGGS ACT 1945

8 MAY 1998

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Executive summary

- The ultimate objective of legislative review under the National Competition Policy is not to introduce new competitors, increase efficiency nor even to improve the process of competition. The highest level objective of the NCP is to increase the public benefit; increased competition is to be adopted only in so far as it achieves that end.

- The statutory scheme for the egg industry under the *Marketing of Eggs Act* (**Act**) achieves public benefits which outweigh any costs of restrictions in the Act.

- The Western Australian Egg Marketing Board (**Board**) has demonstrated that, contrary to much economic theory on producer boards, it does in fact provide low retail prices to consumers resulting in increased consumption, reasonable prices to producers and marketing and product development innovation.

- Again, in contrast to theory which states that regulatory intervention sends incorrect supply and demand signals, the Board has produced far superior outcomes for consumers in Western Australia than in Eastern States where there has in fact been fluctuating supplies and at times egg shortages. Western Australia producers have been able to assist in meeting shortages.

- In addition to meeting domestic demand, the Board has been the mainstay of the Australian export market. Western Australia, with its flexible centralised system, accounts for more than 80% of Australian exports even although production is about 9 % of the Australian total market.

- Sufficient time has now passed for the full effects of deregulation in New South Wales to be assessed and to ascertain whether Western Australia should follow down this path. The comparison clearly indicates the answer is "No". Deregulation in Eastern States has not resulted in lower consumer prices. While deregulation has resulted in higher on average prices to consumers, it has also meant much lower returns to producers.

- These increased costs from deregulation in the Eastern States have pressured the viability of farms and resulted in many leaving the industry. The outcome has been a chaotic supply/demand situation with shortages necessitating importation from other States. Because of the lack of strategic planning of structural change, there have also been adverse impacts on employment, industry development and export planning.

- In contrast, the Western Australian system has been proactive in meeting new demands and changing circumstances. The disciplines and obligations imposed on and accepted by producers under the current licensing system have enabled the Western Australian egg industry to develop domestic and export markets. The Board has been responsive to consumers, developed many new products, investigated and developed new market opportunities, and at the same time operated cost effectively. In association with producers, productivity has also been improved.

- Western Australia has a relatively small and limited domestic market and requires compulsory acquisition by the Board to ensure economies of scale and consequential critical mass. It is only because of the Board's economy of scale that there is a "least cost path" from production to consumer providing the above benefits. This least cost path includes: marketing; product development; grading; handling; storage and packaging; processing; product development for export; hygiene and quality; and collection and distribution. Individual producers could not carry out these functions themselves without significantly increasing costs and consequently prices.

- The public benefit analysis dictates that the main elements of the current legislative scheme - licensing, vesting and quality control - should be maintained. There are no less restrictive alternatives which meet the same objectives as the Act.

INTRODUCTION

In this submission, we consider the Act in terms of the review process established by the Competition Policy Agreement (**CPA**):

1. Objectives of legislation.
2. Restrictions on competition resulting from legislation.
3. Effects on competition and economy.
4. Cost/benefit analysis.
5. Alternative approaches.

We have also had regard to the "*Legislative Review Guidelines*" issued by the Treasury, Government of Western Australia, April 1997 (**Treasury Guidelines**), particularly in our analysis of competitive effects.

1. Objectives of legislation

As noted in our earlier submission, the objectives of the Act include:

- to facilitate economies of scale and stability in the industry;
- to ensure the efficient marketing and distribution, on a continuing year round basis, of high quality eggs and egg product at competitive prices;
- to identify and capitalise on opportunities for increased consumption;
- to facilitate a competitively determined return to efficient producers;
- to adjust egg production to meet changing requirements and sales demand;
- to facilitate adoption of new technology within the industry;
- to provide leadership in the adoption of "world's best practice";
- to meet potential export opportunities; and
- to cater for further product development.

2. Restrictions on competition resulting from legislation

As required in the Treasury Guidelines, we list all restrictions in the Act irrespective of whether or not we consider the restriction to be beneficial.

The Act contains a number of principal restrictions, being:

(a) licensing of egg producers;

(b) compulsory acquisition by Board and consequent determination of market price for producers;

(c) quality control requirements;

(d) restrictions on producer use of eggs;

(e) determination of retail egg prices;

(f) restrictions on keeping breeding fowl; and

(g) producer levies.

A number of ancillary restrictions support the administration of these principal restrictions. These are detailed in Annexure A.

3. Effects on competition and economy

(i) Effects relevant to public benefits

It is critical to keep in mind when reviewing the legislation that the test is whether the legislation is in the public benefit and not whether it restricts or promotes competition. Public benefit is a far wider concept than competition, extending beyond consideration of efficiencies. As noted in the Treasury Guidelines:

> *"...competition is not for its own sake but for the public benefits it generates. Thus the highest level objective of NCP is increased public benefit; increased competition is to be adopted only in so far as it achieves that end." [their emphasis]*

The CPA requires the following to be taken into account, although it acknowledges other matters may be relevant to the public interest:

(a) government legislation and policies relating to ecologically sustainable development;

(b) social welfare and equity considerations, including community service obligations;

(c) government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;

(d) economic and regional development, including employment and investment growth;

(e) the interests of consumers generally or a class of consumers;

(f) the competitiveness of Australian businesses; and

(g) the efficient allocation of resources.

The Treasury Guidelines identify the following types of objectives as corresponding to the major kinds of effects which need to be accounted for in the public benefit test:

- economic/financial;
- distributional;
- environmental quality;
- life expectancy/health;
- employment;
- uncertainty/risk;
- regional economic growth; and
- avoidance of "public bads".

As the Treasury Guidelines stress, one of the best sources of evidence of the effects of a restriction is to make comparisons with an environment free of such a restriction. One of the most useful comparisons in reviewing the provisions of the Act is with the Eastern States which have already removed similar restrictions. The following analysis refers to such evidence.

(ii) The effects of the current scheme

Below are tables summarising the effects of restrictions in the Act, both positive and negative. We also include reference to negative effects which are considered typical of similar legislation and explain that they are not a feature of the system in Western Australia. We cross reference to evidence in our earlier submission and in this submission. The effects are categorised under the primary restrictions in the Act identified in section 2 of this submission. We also, in some cases, add further comment after the tables to address arguments which may be raised counter to our position that the effects of the current scheme are beneficial.

Restriction:

(a) Licensing of egg producers

Effect	Evidence	Persons Impacted	Objective Impacted
Licence system prevents over-supply of egg market and stabilises price	• Statistics showing match of supply and demand in Annexure B. • However flexibility of arrangements is still maintained, as explained on page 9. • In terms of price, we refer to our evidence at page 9 that prices have been stable.	• Producers' returns are limited but sales are guaranteed and all production costs are covered. • Consumers may lose short-term price benefits of oversupply but neutralised because supply stability means they do not suffer higher prices from egg shortages.	economic/financial
Fewer instances of overpriced, poor quality eggs: restriction protects less informed customers	The Association believes that complaint levels about eggs in WA are low as compared to other similar perishable items.	Consumers benefit but less scrupulous producers lose (this redistribution is in the public interest).	distributional
Greater certainty - consumers have more confidence and buy more	Board data on increased consumption in WA is set out in Annexure C.	• Impacts positively on consumers but adversely on producers prevented from supplying. • However, producers benefit from increased consumption.	risk reduction economic/financial

Effect	Evidence	Persons Impacted	Objective Impacted
Market rationalisation	WA egg industry statistics show steady rationalisation into fewer, larger producers - see page 7.	• More efficient producers maintain a lower per unit cost and earn more than less efficient producers. Small, inefficient producers are encouraged to leave. • Consumers benefit from more efficient industry	economic/financial, distributional
Predictable demand encourages investment and development	Evidence of existing farm growth at page 7 and innovative products at page 15.	• Producers benefit from investment and further efficiencies. • Consumers benefit from reliable supply and innovations.	economic/financial, employment
Some administrative costs from licensing	While there will be some administrative costs, we note that there is no licence fee.	• Producers paying indirectly by deductions from returns. • Egg consumers don't have costs passed on in prices because the price is determined by competitive pressures and is not cost-based.	economic/financial, distributional
Potential higher prices from high barriers to entry but this has <u>not</u> happened	Data showing egg consumption in WA has actually increased is set out in Annexure C.	• Consumers have not lost from higher prices. • Producers have not lost from less consumption.	distributional, economic/financial

(a) Licensing of Egg Producers

(i) Stabilisation of supply and demand

The licensing system presently employed in Western Australia provides crucial stability to producers and consumers alike. Although licensing may be seen as effectively limiting competition and providing what may be viewed as a "closed shop", in the Western Australia egg industry these restrictions are necessary in order to maintain a steady balance between supply and demand.

Historically, the table-egg market in unregulated and deregulated environments has been characterised by periods of severe under-supply and over-supply as producers attempt to meet fluctuating consumer demand. The long lead time in egg production (in excess of eight months except where older birds are available) and extremity of these fluctuations makes it almost impossible for an individual producer to adequately predict the market. Eggs are highly perishable items and cannot be held in surplus for any period. Excess eggs do not affect the quantity of eggs purchased and so are uneconomic and wasteful.

Careful monitoring of market conditions by the Board guarantees that producers will never be left with excess eggs and that consumers will never be presented with either a glut of particular grades, low-quality eggs or a shortage of eggs.

Prices have also been stable in Western Australia, as shown in the attachments to our earlier submission. In contrast, prices in NSW have fluctuated from below the cost of production (e.g. 80¢/dozen in store) to the extreme of egg yolks up to $7 to $8 (usually around $5-6). Whole egg pulp (usually $2.50) has ranged from $1.30 during a surplus to $3.50 during a shortage.

Stabilisation of supply and demand has further benefits for producers and the public. Producers who are guaranteed a stable demand for their eggs, and are not subject to artificial and seasonal price adjustments, attract further crucial investment. Stable demand also allows for more innovation.

We acknowledge the system is geared towards existing producers, who have the experience and expertise required for maximum efficiency and reliability. However, as demand for eggs increases and further licences are issued, new producers are sensibly introduced to the marketplace. Further, the transfer of licences is often part of the sale of a business, which carries with it the required equipment and goodwill.[1] New producers can also enter the market by leasing a licence under the

[1] We note in relation to goodwill that it is not legitimate to argue that the licensing system results in a high price for goodwill. Even in the deregulated Eastern States, high value goodwill still exists.

new regime introduced by the Board. Leasing may also allow temporary transfer of "capacity", for example, where a producer wishes to temporarily close a shed due to building expansion or disease outbreak. While transfers and leases are subject to Board approval, we are not aware of any cases where this has been withheld. The power of approval is merely to ensure supply and demand continue to be matched.

Once a producer has been granted a licence, that producer has automatic access to the egg industry and an instant demand for its product. Its survival will then depend on maintaining its own efficiency.

(ii) Rationalisation and promotion of efficiency

All egg licences are inscribed with a maximum number of permissible fowl. Licences may be freely traded since Board approval is always forthcoming. Working within a maximum number of fowl combined with fixed prices directly promotes efficiency and innovation, since more efficient producers will gain a lower per unit cost and maintain wider margins than less efficient producers. These efficiencies are often achieved through economies of scale, which have seen producers merging to amalgamate the benefits of their licences. Importantly, rationalisation is achieved while maintaining reliable supply and demand.

For example, an analysis of egg farm sizes in Western Australia shows that in 1971 there were a total of 505 farms, over half of which had fewer than 500 birds each. By 1997, the number of farms had been reduced to 105, almost half of which had more than 10,000 birds each. The following table provided in our earlier submission expresses this trend:

Number of Birds	**Number of Farms**		
	1971	**1993**	**1997**
under 500	261	39	15
501-1,000	50	9	9
1,001-2,000	44	10	5
2,001-5,000	90	21	6
5,001-10,000	49	32	26
over 10,000	11	33	44
Total	505	144	105

This orderly rationalisation benefits the industry as a whole, making it more efficient and reliable and driving down costs. Efficiency gains are ploughed back into the industry in the form of further investment, development and innovation, all of which ultimately benefit consumers.

(iii) Maintenance of flexibility

The Board's interaction with the market is flexible and dynamic. If unexpected fluctuations occur, the Board has the necessary information and capacity to coordinate adjustments across a wide range of producers. The licensing system allows for special contracts to meet such fluctuations. In this way, demand is satisfied without adverse effects on the industry such as chaotic oversupply or overstretching leading to shortage.

This situation can be contrasted to the Eastern States where the influence of very little co-ordination has resulted in markets fluctuating widely. The Board was able to take advantage of this situation and export to those States in 1992 and 1995.

Restriction:

(b) Compulsory acquisition by Board / determining market price for producers

Effect	Evidence	Persons impacted	Objective impacted
Reduced transaction costs for producers and retailers result in lower prices to consumers and increased consumption.	• We refer to price comparisons with other States in our previous submission and consumption data in Annexure C. • In terms of transactions costs, these are clearly reduced by vesting.	• Producers and retailers benefit from reduced costs and increased consumption. • Consumers benefit from reduced prices.	economic/financial, regional growth
Reliable industry wide information on egg production, consumption and pricing trends	This is an accepted consequence of producer board structures and is certainly the case in WA.	Producers, retailers and consumers benefit.	economic/financial
Increased producer confidence in investing in business and new products since they can match the countervailing power of strong buyers such as supermarkets	• We refer to evidence of farm growth at page 7 and new products at page 15. • We also refer to Annexure D which, while not concrete evidence, indicates that the industry is investing in state of the art technology and establishing new facilities.	• Producers benefit from increased bargaining power. • Retailers have less leverage. • Consumers benefit from better product.	distributional, economic/financial, risk reduction, regional growth
Greater certainty as buyers have more confidence in purchasing from established stable entity with guaranteed supply,	We refer to shortages in other States as evidenced by comparing the WA stock levels in Annexure B with the national shortages in Annexure E.	Producers, consumers and retailers benefit.	risk reduction, economic/financial

Effect	Evidence	Persons impacted	Objective impacted
resulting in increased consumption			
No other WA operator can operate a wholesale supply business but this effect is limited because price benchmarks and competition at the wholesale level still come from the Eastern States and permit holders	• We refer to data showing the number of permit holders at page 11. • Evidence showing that prices in WA go down when there is a glut in the East in Annexure G.	• Producers and retailers from less choice but there are still alternative suppliers for retailers and benchmark price information allows both producers and retailers to negotiate effectively. • Even if the price to retailers was higher, this is only a redistribution to retailers and does not necessarily mean that the price to consumers would be any different than in a fully competitive situation.	distributional
A single front, economies of scale and ability to reliably source eggs improve export prospects	We refer to data on WA exports at page 15.	• Producers gain revenue. • Consumers gain from benefits to economy.	economic/ financial, regional growth

(b) Compulsory acquisition and determination of producer prices

(i) No public detriment from higher prices - no higher prices

Contrary to standard allegations against producer boards, vesting of eggs in the Board has not resulted in higher prices to consumers (and thus lower consumption) than where vesting does not occur. We refer to our earlier submission and attachments showing that Western Australia's prices are comparable to prices in deregulated States.

To recap on this data, in Western Australia the average wholesale price of eggs has been maintained at less than inflation and the retail wholesale margin has remained relatively stable. In contrast, the retail price in New South Wales' deregulated industry has increased and retail margins for shell eggs have jumped to around 90 - 100%. This provides a gain to retailers at the expense of both producers and consumers.

The determinant of producer prices in Western Australia is the commercial reality of the market place and supply and demand pressures from alternative competition. To send the right signals to producers, the Board also utilises premiums or discounts within its pricing regime to influence the quality and grade of eggs produced.

Price competition exists from potential imports from other States and from actual competition from permit holders who supply direct to the public. Most producers hold a permit to sell eggs direct to the public or businesses outside the Board's distribution area or as approved by the Board. The Board does not set the price at which a producer sells eggs under permits and so these sales provide an indication of competitive wholesale prices. Permit holders account for over 10% of sales and 95 of the 105 farmers have elected to utilise this option. The following are figures for dozens sold under permit and the percentage of WA total sales they constitute:

	1997/98	**1996/97**	**1995/95**
Permit dozens sold	2,465,000	2,306,000	2,168,000
% of total dozens	13.9	13.1	12.4

The pricing policies of the Board also take into account the competitive aspects of the Eastern States market place as evidenced in Annexure E. For example, prices go down when there is a glut in the East. Interstate competition has been possible since mutual recognition of grading standards between States was adopted in 1990.

Total egg consumption has continued to increase at a rate as fast as the rate of population growth, despite competition from alternative foods. This is specific to Western Australia and is not a country-wide phenomenon. We refer to consumption figures in Annexure C. This is no doubt due, in part, to the fact that egg price increases have been much slower than the rate of inflation as evidenced in our earlier submission in Attachments 1 and 2.

Even if the Board's compulsory acquisition powers did result in higher prices to producers, there may be public benefits from an increase in returns to producers where otherwise market failures would mean the market would not provide efficient or equitable outcomes.

Given that prices are competitively determined, there are still substantial benefits from the Board's ability to stabilise and set prices. This ability reduces risk to producers and may raise the price to an appropriate level which recognises the value of the product. This can be contrasted to experience in the East where prices can drop well below cost, to no-one's long term benefit.

The stability offered by the current system has provided farmers with the confidence to expand and adopt new technology as it becomes available. Farm sizes have also increased. We refer to our statistics on farm sizes earlier in this submission.

The confidence provided by the current system is critical for efficient investment by producers. Capital investment in a commercial egg production farm is substantial, with production sheds being highly specialised and having virtually no alternative use. Accordingly, a reasonable degree of stability and predictability is required to ensure future investments. We refer to our costs of establishing an egg production farm set out in our earlier submission.

While all producers receive the same price for similar grades of eggs, the incentive is still provided to reduce costs, since more efficient growers will have lower per unit costs of production and thus earn more than less efficient growers.

Although prices in Western Australia have <u>not</u> been high, we note in any event the Treasury Guidelines' statements to the effect that the impact of higher prices may be neutral. The impact of a restriction causing a higher price to producers at the expense of consumers is purely a distributional effect - a 'slice of the cake' going to producers instead of consumers - and may therefore be neutral. Further, it will only be associated with an economic/financial effect if the restriction is causing lower production or less efficient production. This is not the case in Western Australia.

(ii) Countervailing power prevents exploitation of producers

Countervailing power created by the Board structure is also needed to prevent small producers being exploited by big commodity trading or retailing companies. Supermarkets, typically large chains, account for about 75% of total consumer purchases of shell eggs. The Board also prevents exploitation by middle men. The Board itself does not fall into this category. As it is not a company, it does not make profits and all returns less costs are returned to producers. Removing the middle man assists in keeping the disparity between producer return and retail price, which has occurred in the Eastern States, low in Western Australia.

We note it is relevant to assessment of the countervailing power of retailers that egg producers are required to make significant capital investment in structures and equipment that have virtually no alternative use. These sunk costs put them on the 'back foot' when negotiating.

(iii) Stimulation rather than dampening of demand

The Board stimulates demand for eggs by promoting products, increasing and guaranteeing quality, developing new products and target marketing. The individual producers separately cannot engage in these marketing activities which increase demand and price. Even if they could, they could not appropriate the gains and there would consequently be a free rider problem. The individual producers separately could not engage in marketing activities which achieve the same economies of scale and scope.

(iv) Lower production and supply costs - not inefficiency

Counter to theories of the inefficiencies of marketing schemes, the Board structure results in lower costs from producer to consumer, including lower marketing, processing and distribution costs. Currently, the central grading, handling, packaging and distribution of shell eggs allows the efficient transfer of hundreds of millions of eggs from farms to consumers. While alternatives could be initiated, it is likely that the lesser scale of operations would mean resulting increases in costs. As we note in our discussion of alternative scenarios, the emergence of a vertically integrated super producer is unlikely at present.

We stress again our earlier comments that the current centralised system of processing is critical for the future of processed egg products. Egg pulp and other products are currently the cornerstones of future consumption and sales growth within Australia and overseas markets. The egg industry is only just large enough to support one sophisticated egg pulping plant in Western Australia. Should egg marketing become fragmented from deregulation in this State then it is unlikely that sufficient continuous supply would be available for egg pulping to continue.

The Board has had considerable success with export marketing in South East Asia. It is only with a centralised scale of operation, which provides sufficient critical mass and a quality product that exporting is a viable option. Western Australia, with its flexible centralised system, accounts for more than 80% of Australian exports even though Western Australian production is about 9% of the Australian total.

The economies of scope offered by the Board also assist in collection and distribution. The Board is able to effectively negotiate collection and distribution contracts. It ensures that the least cost path is maintained by calling for tenders for these functions which involve collecting eggs from farms each day and delivering them direct to retail outlets after grading and packaging.

The statutory scheme also assists individual producers to gain from R&D. The Board carries out ongoing development of new products such as pulp blends, yolk blends, white blends, ready to use scrambled egg mixes and special blends for fast food chains. In 1997/98, the Board's expenditure on R&D was almost $100,000. Individual producers separately cannot appropriate the gains from R&D investments and infrastructure and so otherwise would under-invest in the R&D necessary to lower costs and increase production. The Board also collects a levy and provides it to the Poultry Industry Trust Fund for R&D and disease compensation. This levy is 1.666 cents per 30 dozen eggs.

The determination of producer prices by the Board does not encourage high costs since the producer prices have not been determined by the costs of egg production data since the late 1980s.

In fact, lower costs have resulted from reduced risk from price stabilisation, price pooling and income stabilisation. Commodity price fluctuations impose big risks on producers otherwise. The Board's powers allow some of these risks to be spread by smoothing prices year to year and equalising prices amongst all producers.

As we have previously noted, given the lead time necessary to increase production, planned production at a known price is also necessary for producers to commit themselves to a contract. The centralised system and pricing structure used by the Board enable forward planning for both domestic and export markets. In contrast, other States have overproduced to guarantee domestic supply and then in time of surplus, product has been "dumped" on the export market. Consequently returns have been poor and inconsistent.

(v) Innovation has increased, not decreased

One difficulty often associated with stabilisation of prices and vesting is that individual producers are not able to compete on price, quality, product features, service or other differentiating factors. In the Western Australian egg industry, these have not been features of competition under the Act.

Various grades, packs and varieties such as free range, vegetarian, brown and different rates and sizes have all been introduced to provide consumer options. The Board has taken the lead in such innovations, ahead of other States. It is only because of the centralised vesting system that such a range of consumer preferences can be accommodated. We refer again to our description of new products detailed in our earlier submission. In addition to premium products, the centralised grading floor has, as we noted in that submission, also enabled the use of blemished eggs for processed products such as egg pulp.

It is also sometimes said that lack of contestability in marketing may lock out innovative ideas from a diverse range of contestants and that the generic marketing engaged in by producer boards is insufficient. Our submission is that in the absence of a monopoly market, it is unlikely that the individual producers would be in a position to afford to appoint innovative marketing companies without substantially increasing their costs. As many of the producers are small family businesses, this cost could not be justified. Marketing would likely be restricted to local stores. This can be contrasted to the Board's marketing activity which includes educational and product branding exercises using all facets of the media, in-store merchandising and marketing to overseas customers via exhibitions and support to overseas distributors.

Further, innovative marketing is only crucial to the commercial success of a fast changing world. Therefore, while it may be appropriate to industries such as telecommunications, it is of far less importance in a traditional industry such as egg production. In an industry such as egg production, marketing of a generic nature by a statutory Board is not harmful.

(vi) New and efficient operators are not prevented from taking over inefficient producers

In response to any argument that efficient producers will be unable to expand production to displace less competitive producers, the Act allows the Board to reward producers with good quality eggs and to penalise low quality producers through price. This has the same disciplining effect as ordinary competition.

Further, since licences are transferable and able to be leased, more efficient producers will take over less efficient producers, thereby allowing expansions. The scheme would only be unreasonably restrictive of new entry if it did not allow licences to be transferred or leased.

(vii) Value adding by processing has been promoted

It is sometimes said that monopoly marketing reduces value adding activities by processing industries. The egg industry in Western Australia has been characterised by innovative egg products. A number of these, as detailed above and in the Poultry Association's earlier submission,

relate to processed eggs. This processing has been initiated by the Board and would not be possible without the economics of scale and critical mass.

(viii) Vesting and fixed prices have not resulted in oversupply or resource misallocation

It could be said that compulsory acquisition and price setting isolates producers from market signals and may encourage too much production. However, in the present situation, where the price setting is combined with producer licences limiting production, this will not occur. These limits replicate market signals, at least on an annual basis.

The limits are based on supply/demand data from Western Australia. If these estimates prove to be too generous during a year (although this has not, to our knowledge, occurred), then the Board is able to reduce the amounts of eggs which are to be produced under licences. In a disparate market, a single entity such as the Board is in a far better position to gather and analyse information about the demand characteristics for eggs. Individual producers are dependent on this information to respond to demand characteristics.

The Act also allows for specialty contracts to be issued to meet a particular market or an extraordinary demand. Without a single point of reference, it will be difficult for a customer to ascertain the best source of supply for a particular market. Specialty contracts allow the Board to issue a contract for a set quantity and number of weeks to meet supply and demand as necessary. This avoids the surplus that occurs in many industries.

Specialty contracts are also used for niche markets. All producers have the opportunity to participate in contract pricing for these niche markets or development of value added products. Western Australia does not have the production volume or critical mass to develop these markets from erratic surplus production. A surplus production regime would result in a misallocation of resources, inefficient production and resultant cost subsidisation.

Another argument sometimes levelled at producer boards is that they are allocatively inefficient, requiring government subsidisation. However, in contrast to other legislated marketing schemes, where it may be alleged that misallocation of resources results, the Board does not operate at a loss and does not carry a debt structure. It has not required any government-sourced cash inputs nor does it require nor have any government guarantees.

We stress again our view that the flexibility of the current system enables producers to meet market requirements without volatility of supply, as well as providing opportunity for expansion as market demand requires. Given the size of the Western Australian industry and the limited opportunity for expansion on the domestic market, the vesting system is the best method of developing domestic and export egg product markets, without a waste of resources.

Restriction:

(c) Quality control

Effect	Evidence	Persons Impacted	Objective Impact
Encourages high standards of production and gives consumers information about this	The Board checks all eggs and randomly checks for pesticides. We refer also to the Board's Quality Manual and Producers Manual.	• Consumers benefit from information about products. • Industry benefits from increased consumer confidence. • Producers who do not meet high standards are adversely affected.	risk/reduction, life expectancy/ health, economic/financial, distributional
Higher administrative costs but these are simply deducted from producer returns	No administrative fees are paid.	• Producers have these costs deducted from returns. • Costs are not passed on to consumers.	economic/financial, distributional
Standardisation of product (but this has not stifled innovation)	We refer to innovative products described at page 15.	Consumers benefit from product definition and higher volume of specific grades, but may be adversely affected by stifled innovation. However this has not occurred in Western Australia.	economic/financial, risk/reduction
Prices are stabilised from standard grading	We refer to the price ranges for eggs showing price stability in the attachments to our previous submission.	• Some producers benefit and some are adversely affected because they might have achieved lower or higher prices on the market, but all benefit	economic/financial, distributional

Effect	Evidence	Persons Impacted	Objective Impact
		from stabilisation of prices which focus on long-run demand rather than seasonal fluctuations. • The industry benefits from greater certainty which encourages investment. • Consumers lose choice within grades but maintain choice between grades.	
Premiums and discounts encourage producers to follow the market's demand for quality	We refer to the different margins for different grades at page 20.	• Producers who produce highly marketable eggs are rewarded while other producers are adversely affected. • Consumers benefit in having their demands met.	economic/financial, distributional
Countervailing power against mass purchasers through grading	Producers are able to negotiate with a single front through the Board.	• Producers benefit from higher prices to supermarket chains. • Consumers *may* be adversely affected from higher prices although the price comparisons in our earlier submission negated this.	economic/financial, distributional

(c) Quality Control

(i) Standardisation of product range

The grading system provides homogeneity within each grade while maintaining heterogeneity between grades. Standardised grading produces a higher volume of any one specific grade than would otherwise be attainable by less universal systems of description. This allows the industry to meet the specific needs of consumers, accommodate large orders and better present its products to the market. Further, it allows consumers to be properly informed about their purchasing options.

(ii) Maintenance of quality and market responsiveness

The grading system encourages high standards in production and enhances the reputation of the industry and eggs in the marketplace. By pricing according to grade, the system gives advance notice to producers that higher prices will be paid for higher quality. By monitoring the performance of various grades in the market, the Board can meet specific consumer demand and inform producers of changes in market expectation. Competition between grades of egg is an important market indicator where there are no differentiated "brands" of egg.

Further, the Board may pay a premium for eggs which are in high demand and a discount for eggs which will not be easy to market. This practice provides clear market information to producers and, by giving them an incentive, ensures that consumer needs are met exactly. The margins based on 50gm eggs are:

- 43 gm -18 cents
- 50 gm 0 cents
- 60 gm +8 cents
- 67/72 gm +13 cents

The Board also has a Grade Equalisation Program which sets production levels based on demand. To ensure that farmers are not encouraged to overproduce premium eggs, farmers who overproduce a particular size of eggs will be paid a lower price.

The codes of grading, packing and marking ensure that consumers are able to purchase the high quality eggs they are used to in Western Australia. Eggs are susceptible to contamination and associated health risks, so a rigorous code system is essential to ensure consumer confidence and public health.

(iii) Predictable and transparent pricing

Producer pricing according to grade means that the price of eggs is based on quality rather than the relative bargaining power of the producer. This is important in a market where an oligopsony of supermarket chains exercises considerable buying power and individual producers have very little at their disposal. Transparent pricing also provides producers with crucial information as to the actual value of the various grades of egg, and prevents buyers from playing producers off each other. These safeguards operate to the short-term detriment of buyers, but are crucial to the long-term efficiency and sustainability of the industry. Further, buyers cannot always be relied upon to pass on short-term gains to consumers.

(iv) Health and other public demands are promoted

Consumer requirements are constantly monitored and particular attention is given to public health, quality, hygiene, grades and packaging to ensure consumer demand is met. The Board has initiated changes to the packaging and grades of eggs to provide a range of customer options and to exceed competition from egg imports from the Eastern States.

We note also the public benefit from the Board's trace-back system for quality assurance and disease control. This allows constant monitoring of human health, quality and hygiene factors.

The public benefits from the quality control programs also include economic gains from ensuring that eggs for export are in all respects safe and fit for consumption according to the rules of importing countries.

Restriction:

(d) Restriction on producer uses

Effect	Evidence	Persons impacted	Objective impacted
Greater certainty from quality control for consumers since otherwise eggs would be supplied to the public without independent quality checks	We refer to the Board's quality control practices in its manuals and codes.	• Consumers through increased safety and confidence. • Producers from cost of having to meet higher standards (although required for other eggs anyway).	health, risk reduction
The Act prevents producers from using eggs for their own businesses such as hotels and similar, resulting in greater costs to them in transaction and price terms	Self evident since retail price they have to then pay is higher than production costs **but we do not believe any are affected.**	• Producers from higher costs. • Consumers from costs passed on in increased prices. But we are not aware of any producers affected.	economic/financial

Restriction:

(e) Fixing of retail prices

Effect	Evidence	Persons impacted	Objective impacted
May discourage purchases by retailers thus reducing consumption	No evidence as power unused since 1985.	• Producers from less demand. • Consumers from shortage of supply.	economic/financial avoidance of public bad
Reduces retailer incentives to keep costs down	No evidence as power unused since 1985.	Retailers and consumers from inefficiency.	economic/financial
Provides certainty	No evidence as power	A small benefit to customers.	distributional

to customers and so may increase consumption	unused since 1985.		
May cause allocative inefficiency if low prices cause customers to substitute eggs with alternative goods	No evidence as power unused since 1985	• Benefits to suppliers of other goods; • Customers benefit from lower costs; • Egg producers and retailers suffer loss	distributional

Restriction:

(f) Restrictions on keeping breeding fowls

Effect	Evidence	Persons impacted	Objective impacted
Permit requirement increases costs of doing business and creates administrative costs. Provision of information required is also costly	Specific details are unavailable but that costs exist can be assumed.	Producers impacted by increased costs but gain from compliance by breeders with egg licensing system.	economic/financial, distributional
Ensures compliance with licensing scheme	No evidence of breach of scheme.	All benefit from supply and demand stability.	economic/financial

When the Act was originally drafted, many producers undertook their own hatchings for replacement stock. However, hatchery is now a specialised industry. The restriction would only apply to three hatcheries in Western Australia and our understanding is that compliance costs in terms of the restrictions are negligible. Conversely, risk of breach of the licensing system could also be said to be minimal. Effects of the restriction are therefore relatively neutral.

Restriction:

(g) Producer levies

Effect	Evidence	Persons impacted	Objective impacted
Higher costs to producers balanced by returns from R&D and marketing by Board resulting in improved product	The levy is currently $1.82 per licensed bird per year. This must be balanced against benefits noted below.	Producers lose from cost but gain from return of benefits - neutral impact	distributional

In return for payment of a levy, producers are able to share in a total marketing plan. All producers contribute so there is no free riding off the marketing investments and innovations of others. The levy contribution also gives producers a feeling of ownership and the ability to question and shape the direction of promotion and marketing. Marketing activities in this context range from major television campaigns to in-store merchandising material such as pamphlets, specific price boards and educational material. It also includes joint venture promotions with major customers. Again, these 'costs' are not directly passed on to the consumer since prices are competitively determined.

4. Cost/benefit analysis

The information for this analysis is set out in section 3. This section sets out our conclusions.

(a) Licensing of egg producers

Removal of this restriction is not justified in the public interest because the beneficial effects of the restriction are considered to outweigh the negative effects as identified in the table at pages 7-8.

Some would assume that the main costs of licensing systems are constituted by increased barriers to entry, which in other markets often raise prices and stifle innovation. However, in the WA egg industry, prices are otherwise lowered by the economies of scale achieved by the Board acting as single seller. Interstate comparison shows that prices in Western Australia are not higher than those in deregulated states. Further, innovation and efficiency are in fact encouraged since the Board price paid to producers is not based on producer cost and so there is considerable incentive to expand margins through innovation and development.

Moreover, since licences are tradeable commodities and many licences exist, the barriers to entry imposed by the system are by no means absolute nor necessarily even high. The upper limit of licences is not fixed but is free to expand with demand, providing a further point of entry to the market. On the other hand, without licensing, supply might exceed demand by too great a margin, and the whole system would fail.

Costs which arise from heightened barriers to entry are therefore neutralised by other areas of the licensing scheme. The administrative costs of the system to producers are internalised by Board-determined producer prices and do not affect consumer prices. Costs from heightened entry barriers are more than matched by the economies of scale made possible by the administrative structure.

Besides economies of scale, licensing produces benefits such as matching of supply and demand, better priced and quality eggs, greater stability for consumers and producers and consequent increases in investment and innovation.

Analysis therefore suggests that in the Western Australian egg industry, the overall costs of the licensing system are negligible while the benefits are significant. The licensing requirement should be retained as an indispensable element of a system which has proved itself as beneficial.

However, as we have noted in our earlier submission a slight increase in fowl limits could be beneficial to promoting growth in the industry. Prediction of demand is not always perfect, and it might be of greater benefit to the public to err on the side of oversupply.

(b) Compulsory acquisition and determination of producer prices

Removal of this restriction is not justified in the public interest because the beneficial effects of the restriction are considered to outweigh the negative effects as identified in the tables at pages 11-12.

This restriction lies at the heart of the statutory scheme and is central to addressing the market failure of the Western Australian egg industry. The main cost of the restriction, and the main cost of the scheme itself, is the lessening of competition in the wholesale egg market. However, competition is not necessarily valuable in itself and must be evaluated according to its benefits. The benefits of competition are generally seen as lower prices, increased innovation, and enhanced consumer choice. However, without the Board, it would be unlikely that any of these benefits would arise. Deregulation has not driven down prices in other states, and would be likely to have a more detrimental effect in Western Australia, where demand is insufficient for a successful market and imports are less feasible. Since producer prices are rising below inflation, innovation is imperative for producers to maintain their margins. And without the careful grading and packing systems of the Board, consumers would not have sufficient product information to make meaningful choices.

The statutory scheme mirrors the standard benefits of competition and succeeds in a market where actual competition, at this point in time, would not. The scheme is flexible enough to accommodate the changing demands of the market and rewards producers for adapting to those demands. It gives countervailing power to regional producers where they would otherwise remain at the mercy of national supermarket chains. It provides the stability which is a necessary precondition to further investment and development. It encourages rationalisation and efficiency and guarantees the reliable supply of a staple food to consumers. It also reduces transaction costs. Critically, the scheme allows for development of an export market.

In this situation, competition would come at great cost with few benefits. On the other hand, the benefits of the statutory scheme far outweigh the "cost" of a loss of competition.

(c) Quality control

Removal of this restriction is not justified in the public interest because the beneficial effects of the restriction are considered to outweigh the negative effects as identified in the tables at pages 18-20.

Quality control in food supply is of paramount importance. Eggs are perceived as a susceptible food due to association with salmonella bacteria. Quality control is a public health issue and is therefore difficult to over-quantify. The administrative cost of maintaining such a system, and the exclusion of producers who fail to meet quality standards, cannot outweigh the public benefit in ensuring safe eggs.

Apart from issues of public health, the grading system provides important information to consumers and allows meaningful consumer choice between grades. Consumers do not generally have the capacity to evaluate their own eggs and it is important that they be able to rely on a universal grading system. The system benefits consumers and quality producers and only presents a detriment to producers who are unable to meet minimum standards. Grading also promotes economies of scale by introducing a sensible level of homogeneity within grades. These economies of scale neutralise the administrative costs of grading.

(d) Restrictions on producer use of eggs

Removal of this restriction may be justified in the public interest because the effects of the restriction are probably neutral as identified in the table at pages 22-23.

Restrictions on producer use of eggs are of benefit in preventing producers from circumventing a carefully-constructed system by the independent commercial use of their own eggs. This would result in eggs being supplied to the public without the quality control offered by the Board scheme. Maintaining the restriction therefore provides greater certainty to consumers.

However, this benefit is minimal since we know of no producer who would use their own eggs on a commercial basis. Further, producers could simply get a permit if they wanted to supply themselves.

The cost of the scheme may be higher prices to producers. Consumers may also bear these cost increases. Again, due to the absence of producers involved in commercial businesses such as hotels, or restaurants, costs are minimal.

The benefits of the scheme and its costs are therefore insignificant. While there may be more benefit in retaining quality control, the removal of the restriction can still be justified as of little consequence.

(e) Determination of retail egg prices

Removal of this restriction is justified in the public interest. The negative effects of the restriction outweigh the beneficial effects as identified in the table at pages 24.

The most substantial margins in the producer to consumer supply chain are maintained not by the producer but by the retailer. These retailers are generally national supermarket chains or smaller groceries, who are competitive with one another and provide considerable scope for competition in consumer egg prices. The Board has not exercised its power to set retail prices for some time and

acknowledges that these prices should be left to the market. Since the power is not used, its removal can be justified on the basis that it is of no consequence to the public benefit.

(f) Restrictions on keeping breeding fowl

Removal of this restriction is justified in the public interest. The negative effects of the restriction outweigh its beneficial effects as identified in the table at pages 24.

The activities involved in keeping breeding fowl are generally separate from the egg market and should not be regulated by egg marketing legislation if at all.

The restriction offers some protection against breaches of egg licence conditions which govern the number of fowl which may be used for egg-producing purposes. However, the system of monitoring and administration contemplated by the legislation is cumbersome and costly to producers as well as the Board.

(g) Producer levies

The removal of this restriction is <u>not</u> justified in the public interest because the beneficial effects of the restriction are considered to outweigh the negative effects as identified in the table at page 24.

Producers, retailers and consumers benefit greatly from the R&D and marketing which producer levies support.

There is negligible adverse effect from the cost of the levy. Since the producer price of eggs is not calculated by reference to producer cost, the cost of levies is internalised and insulated from the consumer. The Board is required to distribute all of its funds, so producers are assured that their levies are used solely for administrative and other necessary purposes. Since producers receive benefits from the statutory system it is appropriate that they, rather than consumers, bear the costs of administering the system.

5. Alternative approaches

Alternative approaches need to be considered both for restrictions found to be in the public interest and for restrictions not in the public interest to ascertain whether there should be a transition mechanism to ease the path to full removal of a restriction.

(a) Licensing of producers

If vesting powers are maintained, there is no other effective way of ensuring an appropriate level of production for acquisition by the Board. The only other way to determine production levels is to open the market. However, we believe that the lack of information available to individual producers will result in misallocation of resources.

(b) Compulsory acquisition and determination of producer prices

(i) Voluntary co-operative scheme

At this point in time, transition to a co-operative scheme would be premature and almost certainly more harmful to competition. This is because the WA industry is insufficiently large to support more than one co-operative. A single co-operative has greater opportunity to act monopolistically than the Board. We believe that more effective competition will result if transition to a co-operative structure is delayed until there has been sufficient industry growth to support a number of co-operatives.

The emergence of several co-operatives in Eastern States is not a precedent for what would happen in Western Australia since these States have far higher production levels which can sustain a number of co-operatives.

(ii) Development of large vertically integrated producer corporations through open competition

It is doubtful that removal of current restrictions would allow large producer corporations to evolve immediately. This is due to a number of factors, including the high risk associated with high sunk investments in producer infrastructure. There will also be barriers to producers expanding their operations in the pursuit of economies of scale if deregulation occurs, since there are limitations on expansion imposed by the Environmental Protection Authority and the Department of Urban Development and Planning. As a result, larger poultry farms would need to be situated in the outer metropolitan regions. Currently, about 80% of customers are in the metropolitan area and costs would be increased if farms were forced to relocate. Costs not only include establishment costs but ongoing freight costs for both feed and freight to market place.

Further, because of current restrictions, egg producers have limited direct access to the market independent of the Board which also undertakes their marketing functions. In these circumstances, the costs of adjustment to deregulation may cause efficient producers to leave the industry.

(c) Quality Control

(i) Industry standards

Industry standards for quality control of grading and packaging could be developed but it is difficult to see these as less restrictive than the codes under the current Act.

(d) Restrictions on producer use

Industry standards for quality control could be developed but seem unnecessary unless and until producers begin operating hotels and other such establishments.

(e) Determination of retail prices

There is no need to develop an alternative to determination of retail prices. No transitional stage to removal of the power is necessary since the power has been unused for some time.

(f) Breeding fowl restrictions

We do not believe that it is necessary to have transitional alternatives to breeding fowl permit and reporting requirements. If may be useful to maintain a power of random inspection. This would be less restrictive than current requirements.

(g) Producer levies

There are no less restrictive means of gathering funds from the industry than producer levies. No other mechanism allows industry funding of joint activities such as R&D and marketing.

Conclusion

Ultimately, while we acknowledge that there are alternatives under which the activities of the Board could be undertaken individually or independently, these would be more costly to implement for producers and ultimately consumers. They therefore are not true alternatives to achieving the same objectives of the legislation, particularly in relation to the objective of cost reduction.

We note that many of the recommendations for reform of marketing schemes are based on arguments that deregulation will reduce prices to consumers and increase efficiency. As we have noted elsewhere in this submission, competition is not to be introduced for its own sake. The objectives of it are to achieve increases in consumer welfare. We believe that these are already being achieved under the current legislative structure. It would be highly detrimental to move away

from a successful system towards a more "fashionable" deregulated environment which, while supported by economic theory, has not proven to be beneficial to consumers of eggs in practice.

ANNEXURE A
LEGISLATIVE RESTRICTIONS

The restrictions within the Act are as follows:

(a) Licensing of egg producers

Section 32C - this provision sets out the Board's power to determine the manner and form of licensing applications and the Board's power to refuse to consider applications.

Section 32D - each licensing year, the Board must submit to the Minister a statement of the number of eggs necessary to meet the requirements of the Board and the number of fowls necessary to produce those eggs and make recommendations as to the basis or principles on which applications for licences that year should be determined. The Minister must then furnish the Board with directions in writing as to the basis or principles of the Board's determination of licence application.

Section 32E - the Board has the obligation under this clause to considered any application made in respect of a licence and to grant or refuse it. The licence must state to whom it is granted and the number of fowls which the licence authorises the holder to keep during that year. The Board may recommend and the Minister may then determine the maximum number of fowls which a person may be licensed to keep.

The Board must not grant a licence except to a person who, at the end of the immediately preceding licensing year, held a licence. Where the Board proposes to grant licences authorising all the holders to keep a number of fowls exceeding that authorised to be kept by all of the licences granted for the previous year, the Board may grant licences to person who did not hold licences for the previous year but only so that the total of the number of fowls authorised to be kept by the new licensees does not exceed one quarter of the difference between the total of the number of fowls authorised to be kept by all of the holders of licences granted in the previous year and the total number of fowls that all of the licence holders for the ensuing licensing year will be authorised to keep.

Section 32F - where the Board is of the opinion that the number of eggs likely to be produced in a year will be insufficient to meet it requirements, the Board may grant supplementary licences to licence holders but these must be to current licence holders.

Section 32FA - where the Board believes that the number of eggs likely to be produced in part of a licensing year will be in excess of the requirements of the Board, the Board may, by notice in the

Gazette, reduce the number of fowls authorised to be kept during the licensing year by licence holders and their licences will be deemed to have been varied.

Section 32G - the Board must give approval to any transfer of a licence or any part of a licence.

Section 32J - this provision gives the Board power to cancel licences, however, this is only in limited circumstances such as granting of the licence erroneously or provision of false information by a producer.

Section 32K - this provides that a person must not keep more than 20 fowls for producing eggs for sale unless they are the holder of a licence under this Act nor keep for the purpose of producing eggs for sale a number of fowls greater than the number authorised by a licence under the Act.

Section 32MA - the Minister may declare any part of the State to be a remote area and may issue a special licence to a person. The Minister also has power to cancel or vary any declaration made in this respect.

(b) Compulsory acquisition by Board and determination of producer prices

(i) Compulsory acquisition

Section 21 - this section prohibits a producer from selling or delivering any eggs to any person other than the Board and a person other than the Board from purchasing or taking delivery of any eggs from a producer, thereby restricting both the sale and delivery functions. The Board is required to accept delivery of all eggs tendered if they are of merchantable quality and compliant with relevant regulations.

Section 23 - by way of exemption to the duty of sale in section 21, the Board may grant a permit to any producer authorising the producer to sell eggs to a person subject to the conditions imposed by the Board.

The Board may also grant a permit to any person authorising them to purchase eggs from a producer subject to any conditions imposed by the Board. The Board may revoke or vary any permits granted or vary the conditions of the permits.

(ii) Determination of Producer Prices

Section 28 - this provision allows the Board to determine the amount payable to producers with respect to eggs delivered to it.

Section 32 - the Board must pay each producer on the basis of a determination made under section 28 at such time and on such terms and conditions as the Board thinks fit. The Board's decision as to the quality of the eggs and other matters relating to the marketing of eggs and administration of the Act and how this impacts on the net prices is at the Board's discretion.

(c) Quality Control

Section 31 - the Board must grade all eggs delivered to it, with the price of the eggs depending on the grade.

The Board may also make premium payments to producers for eggs having characteristics or qualities which the Board believes will assist it in or improve the marketing of the eggs and may also reduce the amount payable to producers for eggs sold having characteristics or qualities which the Board believes will render it more difficult for those eggs to be sold.

Section 31AA - the Board may formulate codes for grading, marking and packing of the eggs.

Section 31AB - except in the case of a sale for export from Western Australia, no one may sell eggs or any egg product at retail unless the eggs and packaging conform to a code formulated under section 31AA.

Section 31AC - unless for export, a person packing the eggs or egg products for supply at wholesale must grade the eggs or egg products and mark them with the grade.

(d) Restrictions on Producer Use

Section 24 - this section prohibits a person from using eggs produced by their fowls for use in connection with a hotel, Boarding house, restaurant, manufacturing business or other business owned by the person. A person may be granted a permit by the Board allowing it to do so subject to any conditions imposed by the Board.

(e) Determination of retail price

Section 17(1)(b) - the Western Australian Egg Marketing Board (**Board**) may appoint employees and other personnel to assist it in the fixing from time to time of the maximum price at which each respective grade of eggs may be sold by retail and other services incidental to this.

Section 30 - this provision allows the Board to sell eggs at such prices and on such terms as it determines. The Board is also entitled to determine any processing to be carried out.

Section 31A - the Board is authorised by this provision to fix the maximum retail price for grades of eggs.

Section 31B - where the Board fixes the maximum price for retail supply of eggs, it will be an offence if someone sells eggs of that grade at a price greater than the maximum price fixed by the Board.

(f) Breeding Fowl Restrictions

Section 32L - this provision provides that a person may seek consent of the Board where they have been carrying on a business producing hatching eggs but they wish to keep fowls as breeding fowls. Any person who keeps breeding fowls must also furnish the Board with a statement as to the location and number of fowls kept and permitting inspection by the Board and must also provide any other information required by the Board concerning any business of production of hatching eggs.

Any person who hatches eggs or rears chickens or pullets to sell them to producers must, if required by the Board, keep a record of such sales and deliver to the Board each month a return showing whether any or what number of chickens and pullets were sold during the previous month and the details of the purchasers and answer any questions submitted to the Board. Further, a producer who purchases chickens, pullets or fowls or who disposes of them must notify the Board in writing of the details of the other party to the transaction and subject matter of the transaction.

(g) Producer Levies

The Board may impose a charge determined by the Board on every producer licensed by the Board. The proceeds of any charges are for general administration, marketing and other costs of the Board. It is an offence to fail to pay any charge under this provision. Where a producer is a holder of a permit granted under section 23(1) they must contribute to the general funds of the Board and an amount determined by the Board. This also applies to permit holders under section 23(3).

ANNEXURE B

MATCHING OF SUPPLY AND DEMAND

Days stockholding

	July 97	Aug 97	Sept 97	Oct 97	Nov 97	Dec 97	Jan 98	Feb 98	Mar 98	Apr 98	May 98	June 98
Days Sales Stock Holding	2.89	3.89	9.13	6.73	7.14	6.21	4.95	3.17	3.78	5.60	4.51	4.54
	July 96	Aug 96	Sept 96	Oct 96	Nov 96	Dec 96	Jan 97	Feb 97	Mar 97	Apr 97	May 97	June 97
Days Sales Stock Holding	4.87	3.43	5.65	7.07	6.87	10.85	13.00	12.18	10.73	11.46	8.89	5.94
	July 95	Aug 95	Sept 95	Oct 95	Nov 95	Dec 95	Jan 96	Feb 96	Mar 96	Apr 96	May 96	June 96
Days Sales Stock Holding	4.03	4.53	4.80	7.72	6.43	6.31	6.79	5.90	6.44	1.89	2.75	3.91

ANNEXURE D

INVESTMENT IN NEW TECHNOLOGY

The following advertisement refers to investments in the latest technology for poultry farms and is representative of the trend in Western Australia.

EXECUTIVE
SELECTIONS

Animal Production Facility

Site Manager

Latest Technology - Largest in W.A.

You will have the satisfaction of being involved in managing the building, development and on going operation of the latest and largest state of the art bio-secure intensive animal production facility ever built for the industry in Western Australia.

Your role will be autonomous and report directly to the Managing Director who has a very supportive and industry expert Board. As such, you will have a demonstrated track record of success in whatever discipline you have been involved in to date and will possess excellent communications and interpersonal skills coupled to a "hands on, can do" approach to a daily working life.

Whilst experience in poultry rearing and egg production would be highly desirable it is not essential and expressions of interest are strongly encouraged from those with qualifications in other management disciplines, trades and/or rural experience.

A package designed to attract and reward the right calibre of applicant will include a company vehicle and new family accommodation.

You are strongly encouraged to call **Phil Clark** on **(08) 9488 2323** to explore your fit to the role. Alternatively, send your application quoting **Ref.1621** by mail to **Executive Selections**, 4th Floor, 225 St George's Terrace, Perth 6000. By fax to **(08) 9321 3169** or by e-mail to **execselect@bigpond.com.**

EXECUTIVE
SELECTIONS

ANNEXURE E

WA PRICE REACTIONS TO EASTERN GLUTS

This table indicates that when there has been a prolonged glut of supply in the East (as marked in bold), the prices in Western Australia have fallen as a competitive response.

RELATIONSHIP BETWEEN EGG PRICES AND EGG STOCKS

YEAR	QUARTER	PRICES			STOCKS
		Sydney	Adelaide	Perth	
		cents/doz	cents/doz	cents/doz	%
1996	March	249	232	227	5.3
	June	262	240	239	-37.8
	September	278	239	242	-44.0
	December	275	248	257	15.1
1997	**March**	**271**	**246**	**246**	**22.1**
	June	277	246	265	-38.4
	September	277	239	263	-12.2
	December	278	235	263	35.9
1998	**March**	**284**	**238**	**255**	**39.1**

Notes:

- Egg prices based on average retail prices in the nominated cities for the three monthly period referred to (Source: Australian Bureau of Statistics 'Average Retail Prices of Selected Items Eight Capital Cities' Catalogue No 6403.0, various issues.
- Stocks based on 'Australian Farmers Weekly Inventory Survey' compiled by Rowly Horn Services. Figures are expressed in percentage terms over or under an accepted ideal stock level but adjusted for seasonal factors. Figures shown represent a simple average of closing stocks for each of the thirteen weeks in the quarter in question.