



**Bruce Muirhead**

**Egg Farming in Australia:**

**Costly, uncertain and inefficient**



# I will not speak to the big issue affecting Aus egg farming

That has to do with changing housing environments, from cage to free range.

Stocking rates have finally been decided – 10,000 birds/ha.

The only thing I will say is that 85% of the farmers with whom I spoke were opposed to the changeover.



# What is the Antipodean experience?

Australia was supply managed in the not-too-distant past.

Phased out its program in the later 1980s.

Since then, things have been very uneven for egg farmers.



# In the days before deregulation

As one of my respondents pointed out to me in the days before deregulation:

“I remember that it was always a consistent income. Everyone was on the same boat, you know. It was always a stable market, it wasn't up and down ... It was never like that before, you know. It was always stable right through.”



# However, Australia has subscribed wholeheartedly to neoliberalism since those days

Based on the idea that the corporation is the model through which to best ensure the most effective and efficient method of economic growth.

- **Free trade**
- **The rule of the market**
- **Cutting public expenditure for social services**
- **Deregulation**
- **Privatization**
- **Eliminating the concept of the public good as a role for government, in favour of the theory of trickle down economics**



# How does the Australian system work?

Totally free market, which has created havoc for farmers. As a very significant producer, one of the largest in Australia, told me, “COP has no bearing on the cost of an agricultural product. None at all.”

As it turns out in Australia, supermarkets have more bearing on the cost of an agricultural product.

No intermediary between producer and supermarket.



# What about Coles and Woolies, the two huge supermarkets?

Very influential in the Australian context. Between the two, they control 70% of the Aus market. Aldi a new competitor. Market size – A\$83 billion.

Totally ruthless in all areas.

December 2014 – Woolworths in court to defend its practices.

December 2015 – Coles in court to defend its practices.

Giving suppliers a haircut



# Coles and Woolies demand sacrifice

In June 2013, Bob Katter introduced *the Reducing Supermarket Dominance Bill* (2013). It didn't get anywhere.

“Few in politics care for small business or the family farmer ... The two major parties have recently gone wholly over to big business ... The process is not sustainable and will damage Australia’s food production industries, but who cares? Following the Australian supplier cleanout, Asia beckons.”

-Evan Jones, “Coles and Woolworths duopoly hard to swallow,” *The Conversation*, 5 April 2011.





# The Big 3 in Aus are less susceptible to supermarket dictates

Sunny Queen, Pace Farm and Farm Pride control about 54% of total Aus egg market, or about 10 million of the 18 million laying hens in Aus.

They don't worry so much about issues that plague smaller producers.



# Frank Pace...

Entirely supports the fair farm pricing system that we have in Canada.

He exists on very slim margins.

Would welcome a return to a quota program.

# On the dangers of putting all your eggs in the supermarket basket

Smaller producers must exercise vigilance when it comes to selling their eggs.

“We are very lucky that we have such loyal buyers. And I'd be scared to get a lot bigger than what we are now because it would mean that you'd have to get into the supermarket business, which is very hard.”

Dougall Smith, co-owner of Knotsbury Farm. Free range, 6,000 hens.



# The system is rigged against farmers, the consummate price takers

What does this have to do with eggs?

Australian egg farmers have to deal with this asymmetrical relationship and they are not equipped to do so.

For example, how about A\$4 per dozen free range eggs?

Not possible, but the supermarkets are insisting on it.

“Supermarkets have too much control over pricing. They’ve just driven the milk industry to almost bankruptcy with their dollar a litre milk.”

-Brian Ahmed, Victorian Farmers Federation Egg Group President



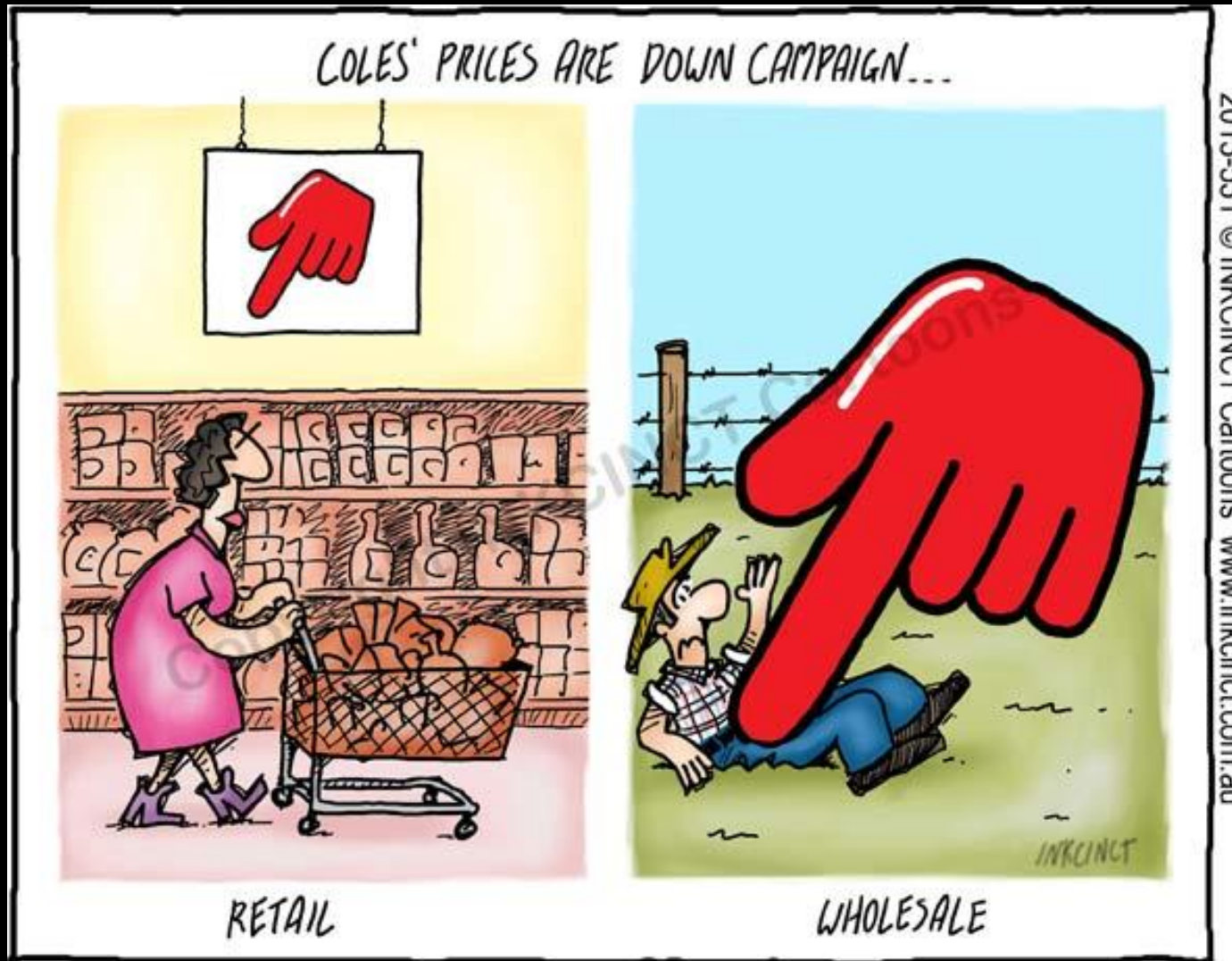
# It is an unfair “tendering” system



I can tell you what happens. It's called a tender, but it's not a tender. It's a Dutch auction. You only get a 12-month contract. It's everybody on the same day. What they'll do is they will put it out for tender and you will get a login onto the computer and you will be able to tender for that business for "x" amount a dozen under their brand. And you might put in, let's say, \$2 per doz. Someone might put in \$1.70, \$1.90, \$1.80, whatever it is, and they will come back after a few minutes and say that the lowest price is now \$1.85 and you have another minute to put in your bid.

“So it’s what we call a Dutch auction. And then you’re stuck into that for the next 12 months. And then after 12 months, if you’ve geared up your farm and you’re producing the volume of eggs for those supermarkets, you don’t have much of an option but to hold that business. Where are you going to sell that volume? Can’t. And if the supermarkets have a bad week and can’t get their numbers, they will send something out along the line of ‘we haven’t sold our quota and you [egg farmers] are expected to take a 5% cut on what you are being paid.’ It’s unfair. And you will never get this in public knowledge. Why? Because people won’t get out there and say something because they’re scared of losing that business. If they lose that business, they’re broke. So no one will say a word.”

# Coles' negotiating strategy



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# Is there such thing as the free market?

At the beginning of my presentation, I mentioned the Australian fixation with free markets and free trade.

The supermarkets epitomize this. They are fundamentally unregulated and monopolistic.

How has the AECL responded?

AUSTRALIAN EGG  
CORPORATION LIMITED





# It is a part of the system

“If the free market is dictating that consolidation will occur through mergers and acquisitions, then so be it. At the end of the day the market will determine, and hence dictate, what will happen in terms of the supply lines of Australian eggs.”

James Kellaway, CEO  
of AECL

“Certainly I'd suggest, in terms of the retailers, they want to deal with a fewer number of producers, whether it be eggs or any other produce, rather than more.”

James Kellaway

# On the joys of hard work – not the free market

“Yeah. You think about it. The farmer works 7 days a week. They do all the hard labour, the distribution, everything – and then they sell it to the supermarket. All the supermarket does is put it on the shelves and then they make more money, maybe a 4 or 5 times bigger margin than what the farmer does for doing basically no work. It’s not right. And then the farmer struggles to pay his bills a lot of years. They can’t pay them because they don’t make any money.”

One of my respondents, June 2016



# When farmers do try and mitigate their situation, the government responds

Australian Competition and Consumer Commission (ACCC) v AECL.

The ACCC alleges that from November 2010, the AECL board encouraged its members to reduce egg production in order to avoid oversupply which would affect egg prices.

Case decided February 2016 in AECL's favour.

Being appealed by ACCC.

## Alleged Egg Cartel Attempt

- **Current case:** ACCC alleging Australian Egg Corporation Ltd and others attempted to induce members to enter into an arrangement to cull hens or dispose of eggs – so as to reduce the amount of eggs available.

"The ACCC is concerned that the alleged attempt sought to obtain agreement by egg producers to reduce supply, which if successful could have impacted on egg prices paid by consumers"  
*ACCC Chairman Rod Sims*



# Australian Competition and Consumer Commission v Australian Egg Corporation Limited [2016] FCA 69

“The ACCC claim is that throughout most of 2011 and early 2012, the respondents, and in particular the AECL, were concerned about the oversupply of eggs and its effect on prices. The ACCC alleges that between 19 January and 8 February 2012, the respondents took action to address these concerns by encouraging certain egg producers to make an arrangement or arrive at an understanding to limit their production.”



# A drag on incomes

This raises the issue of over-supply putting downward pressure on prices, a perennial problem in a non-supply managed regime.

IEC records from late 1970s to early 2000s, this was highlighted in country reports on a recurring basis. Egg farmers suffered, and continue to do so.



# An on-going story

2002 – Fred Adams, IEC reporter and Chair and Founder of Cal-Maine Foods, noted with some understatement at the IEC Seville meeting “Egg people tend to overproduce.”



Finally – does the Australian system mean cheaper eggs for consumers?

Not necessarily, perhaps not even probably.

Eggs are merely one component of supermarket pricing.

The table on the following slide demonstrates that.



# Average price of a dozen large eggs. Expatistan.com

Canada	Australia
Toronto – C\$4.63	Melbourne – C\$6.00
Montreal – C\$4.21	Sydney – C\$6.00
Vancouver – C\$4.58	Adelaide – C\$5.11
Calgary – C\$3.54	Brisbane – C\$6.00
Halifax – C\$4.15	Perth – C\$5.53
Winnipeg – C\$3.12	Darwin – C\$7.00





We shall see what the future brings



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# Concluding comments

The Australian system is inefficient, expensive and relatively chaotic.

Certainty is now back into it, what with the stocking rate decision, but that will only mean an egg surplus and declining prices.

The system is on the way to becoming oligopolistic.

