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# EGG PRODUCTION CONTROL\*

by

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## INTRODUCTION

The whole question of egg production control is a complex matter with many facets, and one on which differences of opinion are inevitable. In dealing with the subject I shall refer to -

- (a) the reasons for and the aims of egg production control;
- (b) the course of events under production control, with special reference to its aims; and
- (c) the problems relating to the continuation of production control.

## REASONS FOR AND AIMS OF PRODUCTION CONTROL

During the five seasons 1965/66 to 1969/70 there was a sharp increase in the egg surplus - as purchases by the Egg Control Board show. The entry of financially powerful undertakings - which was envisaged at that stage - was to aggravate the surplus problem and to have an adverse effect on the stability of the egg industry and on small egg producers.

It was against this background that the Egg Production Control Act (Act 61 of 1970) was placed on the statute book at the end of 1970 in order to legalise action by means of permit control. The aim of the Act is to control the entry to and expansion of large-scale egg production by financially powerful undertakings.

## THE COURSE OF EVENTS UNDER PRODUCTION CONTROL

When considering the course of events under production control, it is at the same time necessary to seek answers to questions such as -

- (a) whether the large-scale entry to and expansion of egg production by financially powerful undertakings has been prevented;
- (b) whether the surplus problem can be satisfactorily controlled; and
- (c) whether the interests of the small producer can be better protected.

Larger production units could not get a foothold in the industry or expand their activities as desired, with the result that existing egg

production enterprises were taken over for this purpose. The application of the Egg Production Control Act therefore did not prevent financially powerful undertakings from going into and expanding egg production on a large scale, the consequence being that the nature of egg production and the supply to the market changed, giving egg production a different structure. The following data are of importance in this connection:

Size group according to number of laying hens	% of total			
	Laying hens		Egg production	
	June 1971	December 1976	June 1971	December 1976
			%	
500- 4999	14	6	12	6
5000- 9999	11	10	11	9
10000-14999	8	6	8	5
15000-50000	37	22	39	22
More than 50 000	30	56	30	58
Total	100	100	100	100

The following additional classification was made in respect of laying hens and egg production for 1976:

Size group according to number of laying hens	% of total - Dec. 1976	
	Laying hens	Egg production
	%	
50 000- 99 999	10	10
100 000-199 999	17	18
More than 200 000	29	30

In 1971 there were 20 units with more than 50 000 laying hens and in December 1976 there were 29 units, six of which had more than 200 000 laying hens. According to the Egg Board's returns and on the basis of producers with 500 and more laying hens there were a total of 810 egg producers in 1971, as against 505 in December 1976.

During recent years financially powerful undertakings have gone into egg production on a fairly large scale and have expanded their farming enterprises or businesses by taking over or buying out producers - and sometimes merely the permit. Permits have consequently acquired a value. As a result of this development the number of egg producers has decreased appreciably and the small producer who sells to the wholesale trade only -

\* Address given at congress of the South African Poultry Association, Cape Town, May 1977.

mainly at floor prices - has largely disappeared. The egg industry is passing increasingly into the hands of large undertakings. As already mentioned, in December 1976 six undertakings were already supplying 30% of the total egg production. Feed companies have also gone into egg farming. The question now is whether egg production is not developing into a secondary industry.

From the above it is thus clear that the application of egg production control has not prevented financially powerful undertakings from entering the egg industry on a large scale.

As regards the control of surpluses, there was a considerable increase in surpluses during the period between the introduction of production control and the 1975/76 season. During 1976/77 there was a decrease of about 14% in surpluses, but it is expected that the latter will increase again during the 1977/78 season. This increase may also be ascribed to factors such as -

- (a) the effect of the present larger supply of eggs from the broiler industry on the surplus position; and
- (b) the change in the structure of egg production owing to take-overs, which should result in the better utilisation of permits - as is reflected in a small increase in the number of hen chicks.

In addition to the much larger surpluses, the loss per case of eggs exported has also increased appreciably since 1970/71 owing to higher costs, especially railage, shipping and manufacturing costs. Total export losses therefore increased considerably, as the following table shows:

Egg Control Board's losses on exports

Six seasons prior to introduction of control		Six seasons after introduction of control	
Season	Loss on exports R million	Season	Loss on exports R million
1965/66	1,1	1971/72	1,6
1966/67	1,7	1972/73	1,8
1967/68	1,7	1973/74	3,5
1968/69	2,1	1974/75	3,9
1969/70	2,1	1975/76	4,3
1970/71	1,0	1976/77	3,9

Despite the better export prices realised during the 1977/78 season, the loss per case of eggs exported during 1977/78 will increase owing to cost increases. Export losses will therefore increase again during 1977/78 due to expected increases in the quantities which must be exported and the loss per unit.

During the 1975/76 season surplus purchases by the Egg Board reached a record of nearly 857 000 cases. Purchases during 1976/77 are expected to be about 750 000 cases and those during 1977/78 about 830 000 cases. According to calculations by the Egg Control Board an annual surplus of 500 000 cases is at present sufficient to meet the requirements of the local market under all conditions.

Efforts have been made for some years to achieve a greater degree of balance between supply and demand in the egg industry in view of the unprofitable export market and losses on exports. During 1970/71 the egg industry adapted itself to a relatively favourable supply and demand situation without resorting to legal measures to control production. During 1972/73 and 1973/74 this state of affairs was more or less maintained. It takes time before production control and price adjustments have an effect on the surplus position. During the past three seasons, however, there was a considerable and disturbing increase in surpluses and consequently in sales losses, despite the application of production control. Even with an expected decrease of about 14% in surpluses the 1976/77 surpluses will still be greater than those of 1974/75. The estimated surplus for 1977/78 is not much below the record surplus of 1975/76.

All things considered, it is questionable whether the application of the permit system under the Egg Production Control Act has succeeded in keeping surpluses down.

From the foregoing it is already clear that production control has not resulted in greater protection for the smaller producer. Because of the nature of the local egg marketing system and developments in the industry it is difficult to protect the interests of the small producer against those of the bigger producers, especially for the following reasons:

- (a) Big producers normally sell a large portion of their production in the trade at better prices - even taking into account extra costs - than the Egg Board's floor prices. The small producer who sells only to the Egg Board at floor prices is therefore inevitably in a weaker position.
- (b) Big producers can also save on production costs. They can, for example, get discounts on their bulk feed purchases or can command greater price discount than the smaller producers.
- (c) An increase in floor prices benefits both big and small producers. It enables the big producers to increase their prices in the trade as well.
- (d) Bigger producers can expand their businesses by buying out smaller producers. The small producer cannot expand in this way because of the curbs imposed by the permit system. Furthermore, the take-over of smaller producers is apparently stimulated by the knowledge that egg producers are protected by the controlled entry to and expansion of the egg industry.

Lastly, let us consider adjustments in floor prices. The position is that, owing to increasing surpluses in the egg industry, floor prices were kept constant and were even reduced over a number of seasons up to 1970/71 despite increases in production costs (especially feed costs). Since 1970/71 floor prices have been increased considerably - especially because of the appreciable increase in feed prices.

## PROBLEMS ATTACHED TO THE CONTINUATION OF PRODUCTION CONTROL

Experience has shown that the basic aims of production control were not realised, even when such control was exercised in the most reasonable manner. It may well be that surpluses were kept in check to some extent. Consequently, it would seem as though the main purpose of continued production control (permit control) is to keep surpluses in check. There are, however, problems attached to the efficient control of surpluses under a system of production control. The following points may be mentioned in this connection:

- (a) The Republic's agricultural policy is based on the principle of free enterprise - of not directly intervening in the way in which the individual producer organises his farming operations and controls or co-ordinates the various enterprises. Basically, the producer retains the right to decide on the nature and type of his farming undertaking. The Government assists producers in the respective agricultural industries in various ways and machinery has also been established to ensure orderly marketing (and what this entails) by regulating marketing arrangements. It therefore follows that production control is only applied in special circumstances and for specific purposes. This also applies to egg production control.
- (b) The price of an agricultural product remains an important factor in stimulating a particular industry or counteracting or discouraging its expansion. It was not intended to use the powers under the Egg Production Control Act to protect the egg price and to assume full control of the development of the egg industry. Any control body runs the grave risk of miscalculating if it tries to plan or work out the future structure and development of an industry. Nor should quota restrictions be a brake on efficiency. Permits should also not be allowed to acquire a market value.

The application of egg production control should therefore not unnecessarily restrict the policy of free entry to and expansion of an industry which would normally apply. In addition, unremitting vigilance must be exercised to avoid over-reliance on permits in an attempt to keep production and consumption in balance. The principles of the floor price scheme for eggs cannot be abandoned when applying the Production Control Act. Where the Egg Board removes surpluses from the market in order to stabilise the local market, the level of the floor price will be strongly influenced by supply and demand conditions in the industry, as determined by the extent of surpluses.

From the foregoing it is therefore clear that the stage has now been reached where the justification for continued permit control must basically be measured against the necessity and feasibility of attempting to control surpluses

through the limitation of permits. The preceding remarks concerning the Republic's basic agricultural policy and the influence of surpluses on the level of floor prices are also important in this connection. Attention is drawn to the following aspects and problems which are involved:

- (a) Within the framework of the Republic's agricultural policy and the aims of the Egg Production Control Act it is difficult, even when unduly large surpluses are being produced, to keep entry to and expansion of egg production completely in check.
- (b) It is undesirable to attempt to plan and implement the structure and development of the egg industry in advance through the application of permit control, even though this was not the original intention of permit allocation.
- (c) The position is such that, as long as the entry to and expansion of egg production are controlled, protection is on the one hand afforded to those who are already in the industry, while on the other hand new producers are encouraged to enter the industry. In addition, the buying out of producers - sometimes of the mere permit - may impose an unnecessary burden on the industry. This also gives permits a market value.
- (d) Although increases in production costs and the relationship between production costs and the floor price cannot be ignored altogether, the size of the surplus and prevailing trends are very important factors in determining the floor price of eggs.
- (e) The financial implications of the sale of surpluses are also of real importance, especially when it comes to further increases in the rate of the special levy.

## SUMMARY

Problems are therefore experienced in continuing with egg production control under the circumstances outlined above. The matter can be summarised as follows:

- (a) The basic aims of production control (permit control) have not been realised, except that this control has apparently helped to keep surpluses in check. Big enterprises have already largely taken over the egg industry. Permits have acquired a value. Even if this is not the intention, production control involves the planning of the future structure and development of the egg industry, and the degree of protection which it affords to those already in the industry encourages would-be producers to enter the industry.
- (b) The level of the floor price remains an important factor in counteracting unnecessarily large surpluses. There are problems involved in applying production control for this purpose. Because of the Republic's agricultural policy of free enterprise and in view of the aims of production control, there are problems

involved in refusing new permits and not allowing expansion, even though unnecessarily large surpluses are already experienced.

- (c) It follows that under the present circumstances a policy of combating increased surpluses by means of production control (permit control) is scarcely justifiable. A lower floor price is probably the best way of discouraging unnecessarily high production without recourse having to be had to permit control. Although increases in production costs and the level of the floor price vis-à-vis production costs can be taken into account, this does not mean that surpluses - in particular, unnecessarily large surpluses - should be removed from the market at an economic floor price.
- (d) A further problem is that, as long as unnecessarily large surpluses are produced and further increases in these surpluses seem probable, it is scarcely justifiable to have the floor price of eggs at a level which will prevent or counter breaks in production and take-overs due to financial problems.
- (e) It is also economically indefensible for any industry which, owing to an unprofitable export market, should be geared to supplying the local market, to produce an unnecessarily large surplus and then to raise the local price by more than would otherwise have been the case.
- (f) In conclusion it can be mentioned that within the framework of the country's policy of free enterprise there is a minimum of interference in the affairs of the private entrepreneur. Taking into account all the relevant circumstances it appears preferable that intervention, which is indeed essential to prevent or counter unnecessarily large surpluses, should take place only under the floor price scheme for eggs, without the application of permit control. Under the egg control scheme the possibility of price control is a last resort as a means of intervention in the affairs of private enterprise in the egg industry.