



Israel's Poultry Industry: Central Planning Analysis and Reform Proposal

By: Dr. Asher Meir, Heni Rothstein Cohen and Adv. Ariel Erlich

This paper examines Israel's poultry industry, focusing primarily on its central planning and the economic ramifications thereof. It examines the negative effects of central planning on various elements of the industry, as well as on consumer prices, concluding that the historical justifications such as they are for the planned market, which includes the statutory Egg and Poultry Board, are baseless. Opening the market to free market operations, in both eggs and broiler industries, is absolutely necessary to optimize the market and lower consumer prices.

The **first chapter** introduces the subject of Israel's egg and poultry industry, covering both egg and broiler industries; the production quotas and price controls for eggs; the cartel in the broiler industry engineered by the Egg and Poultry Board, and the legal issues inherent within.

The **second chapter** looks at the marketing framework of poultry production in Israel and the strong vertical chains therein, covering both the Board's authority to regulate marketing and authorize marketers, and the Board as a strengthening factor in vertical integration.

The **third chapter** examines subsidies and alternative ways to support national land settlement and agriculture.

The **fourth chapter** discusses international trade and importation of poultry products.

The **fifth chapter** discusses the Egg and Poultry Board, detailing its authorities, funding and composition.

The **sixth chapter** is a comparative study of agricultural organizations worldwide, looking at the various types; the global trend moving away from central planning towards voluntary bodies; and other poultry growers' production boards around the world.

Summary

Israel's poultry industry, which provides eggs and broiler chickens to the Israeli market, operates by law without competition or freedom of employment, subject to central planning by the state and The Egg and Poultry Board. The Board was established as a statutory corporation and granted the authority to plan and regulate the poultry market, which includes poultry, eggs and reproductive materials. Since the founding of the state in 1948, the industry's planning has been aimed at preserving and maintaining Israeli agriculture. One

direct consequence of the planned market is higher prices than the free market. In other words, the state supports the poultry industry through high consumer prices.

The egg and broiler industries are not entirely the same. The egg industry operates under tight control, with national and individual quotas set by the Board in a way that preserves limited supply and thus high consumer prices. The quota system, meant to protect poultry farmers from competition, inevitably leads to higher prices. Import barriers also protect local poultry farmers by preventing overseas competition. Thus, existing legislation prevents the natural, desirable processes of scaling, production improvement, and decreasing prices.

The quota regime regulates the quantity of eggs in the Israeli market, systematically maintaining a supply lower than the competitive level, and at a higher price for the consumer. The inefficiency is somewhat mitigated by the ability to buy and sell quotas, but not entirely. The price at which quota trading occurs directly indicates the artificial reduction in supply and the resulting price increase. The quota system is a harmful mechanism, damaging the market by eliminating competition and reducing incentives for efficiency.

The common justification for supporting this regime—preventing overproduction that could collapse the industry—does not withstand scrutiny. Many markets lack intensive planning and control that prevents price declines despite also including risk or featuring high volatility in market conditions. Many agricultural products feature more volatile output and shorter shelf life than the egg and broiler industries (such as cherries in Israel and turkeys in the US), and are still produced efficiently, despite the lack of any sort of central planning. There is no need to fear processes of efficiency, even if they naturally lead to a certain reduction in the number of producers. Currently, the lack of competitive pressure reduces the need for production efficiency; after the removal of quotas and in the presence of competition, efficient producers will thrive and succeed in supplying the increased quantity at a lower price.

Price control in the egg market relies on cost estimation that counteracts incentives to efficiency, and creates a cartel of higher prices. The mechanism of setting a target price for producers guarantees a price above the competitive level, while consumer price controls reflect inflated costs and act as a legal, artificial substitute for cartel enforcement. Comparisons of price variations across stores and with egg prices internationally show that egg prices in Israel are significantly higher than the competitive level, and price controls do not prevent this.

Unlike the egg industry, the broiler industry in Israel has no official quota system; however, the Board created a cartel in 2012 by coordinating prices and dividing the market, artificially reducing supply and raising consumer prices. A recent legal amendment has rendered this cartel illegal, but current lobbying seeks to legislate its permission once more.

Poultry marketing is tightly regulated and can only occur through authorized distributors. This regulation limits competition and keeps prices high. The poultry sector is characterized by vertical integration (where businesses own multiple or all stages of production). Some of this is a result of considerations of risk management and quality control, and is natural and common throughout the world; however, in Israel such integration is also mandated by law through the Board's regulations, such as growers' obligation to be "attached" exclusively to one licensed marketer, or the requirement that breeding materials marketers hold a hatchery.

While this structure can benefit the market, mandating it can cause harm in the form of artificially strengthening the bargaining power of marketers over growers, and thwarting the advantages gained by the presence of independent farmers: constant competition that sets a limit on the exploitation of market power by the marketers; creating a spot market with prices that serve as an important indicator for market costs; and an additional avenue for innovation.

In recognition of agriculture's importance to society and the state in various respects, state support for the agricultural sector is common in developed countries. However, in Israel, most of this support is provided indirectly by granting farmers market power - a power that restricts supply and raises prices - thereby creating undesirable market distortions. If the state wishes to preserve local production, this can be done through direct subsidies.

The research in OECD countries comparing indirect support mechanisms of agriculture through high consumer prices with other regimes of support, primarily to direct aid, shows that transparent, targeted, and verifiable subsidies for agriculturists are preferable. Following global trends reflected in OECD reports, support should shift to direct subsidies based on a periodically updated, long-term policy aimed at promoting agriculture, the same as other economic activities deemed deserving of state support such as land settlement or the advancement of peripheral areas. The budget for supporting the poultry sector should be limited so as not to represent an excessive share of total agricultural subsidies.

The Egg and Poultry Board is the body authorized to allocate production quotas, and it is controlled by the farmers themselves. As long as the quota allocation policy exists, it is highly problematic that its regulation should be carried out by those subject to it. The current proposal to give the farmers' organization legal authority over quota distribution suffers from a similar flaw.

In most countries, production boards do not exist for poultry products, as they do for fruits, vegetables, and, to a lesser extent, dairy in the U.S. and Europe. Where they do exist, these boards are voluntary organizations focused on marketing, R&D, and production development, with minimal authority over market planning or regulation. Within those markets that have production boards, no board has a monopoly; European agricultural markets feature multiple organizations with relatively small market shares, creating competition both among organizations and with unorganized farmers.

Finally, exposing the market to imports would also significantly reduce fresh food prices in Israel, without the risk of collapsing an industry capable of thriving under competition, leading to higher efficiency and lower prices.

Recommendations:

1. **Open the market** in its entirety to free operation, subject to veterinary oversight, by ceasing all central planning, quota regimes and price controls.
2. Subject the value chain to the Economic Competition Law, 5748-1988.
3. Support periphery area agriculture and land settlement via **direct subsidies** according to a multi-year plan.

4. Change the Board's status from statutory corporation to **a voluntary organization**, acting to represent growers, advance research, promote sales and the like, subject to the Economic Competition Law, 5748-1988.
5. All actions involving **veterinarian supervision** and poultry health should be carried out under the auspices of the **Ministry of Agriculture**.

For the [full paper in Hebrew](#)