

Australian Chicken Growers' Council Limited

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SUBMISSION TO DEPARTMENT OF PRIME MINISTER AND CABINET – AGRICULTURAL COMPETITIVENESS ISSUES PAPER

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Australian Chicken Growers Council (ACGC) represents the interests of contract meat chicken growers nationally through six state organisations.

These are:

- New South Wales Farmers Association Poultry Meat Group
- Queensland Chicken Growers Association,
- South Australian Poultry Meat Group.
- Tasmanian Farmers and Graziers Association Chicken Meat Group,
- Victorian Farmers Federation Chicken Meat Group,
- West Australian Broiler Growers Association.

The chicken meat industry is vertically integrated with the majority of chicken grown out on farms contracted to a specific processor.

Australian Chicken Growers Council is a member of the Australian Chicken Meat Federation (ACMF) which has also made a comprehensive submission in their role representing processors and growers. ACG fully supports this submission

Thus this submission will limit itself to those issues which impact on growers specifically and may not have been addressed in detail in the ACMF submission

The Australian Chicken Growers Council welcomes the opportunity to provide a response to the development of the Federal Government's Agricultural Competitiveness White Paper. With numerous similar policy processes occurring at State and Federal levels in recent years, such processes are familiar to rural industry groups. Previous incarnations of this review have had varying levels of success in terms of end-policy, yet too many have been consigned to government archives and left to stagnate. Most have identified the issues facing the agricultural sector, including the chicken meat industry, and proposed solutions, but have not had the policy drivers in place to support them and succeed.

There is clearly an opportunity for this White Paper process to differentiate itself. The White paper it's self must have bipartisan support and immunity to changes in government. Ultimately, ACGC is looking for the final document to spell out concrete policies for the short, medium and long term. The paper must have measurable and realistic goals that can be benchmarked at yearly intervals, as well as headline long-term goals. It must synchronise with State and National-based long-term objectives such as the National Farmers' Federation's recent Blueprint for Australian Agriculture.

The Meat Chicken Growing Sector.

Some 700 contract growers grow about 80% of the chicken meat produced in Australia. The capital investment of the growers represents about 45% of the total capital invested in the industry. Shedding has become more technologically advanced and hence relatively more expensive over time to make sure that the growing facilities keep pace with advances in other areas of the industry eg improved genetics. As would be expected the average size of farms has increased over time partly as a response to economies of scale and partly because getting approvals for new farms is both time consuming and costly. Most new farm applications can take two years or more to obtain an approval and cost in excess of \$250 000 for consultants and legal fees which clearly mitigates against seeking approval for a smaller farm. The

expansion of the industry is in many cases limited by the ability to develop new farms due to state and local government regulations and a lack of any consistency between jurisdictions. This issue is raised in more detail in the ACMF submission.

Issue 4: Increasing the competitiveness of the agricultural sector and its value chains

In addition to those matters raised in the ACMF submission in this area ACGC would like to raise two other matters of particular concern to growers. These are;

1. The commercial relationship between processors and growers and the *Australian Competition and Consumer Act 2010*.
 2. The arbitrary demands of supermarkets particularly with reference to animal welfare.
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1. Contract meat chicken growers have a significant investment in fixed assets, which are essentially designed to grow chickens in. The processor owns the chickens and supplies feed and technical advice to the farm. The grower supplies the shedding energy, labour and the necessary management that will allow the bird to reach its genetic potential both in terms of growth rate and feed conversion. The location of farms often means they have access to only one processor and even where there is access to other processors there tends to be limited opportunities to transfer.

The specialised non-portable nature of the assets, their location and the contractual arrangements essentially make the grower economically captive.

During the 1970s all mainland states recognising the imbalance in bargaining power introduced legislation which essentially provided protection for collective bargaining with state committees made up of processors and growers negotiating terms and conditions of contracts including a “growing fee” and dealing with any disputes that may arise.

With the competition reviews of the late 90s the existing legislation in a number of states was either modified, repealed or suspended and replaced by an authorisation under the then Trade Practices Act. More recently those states that still have legislation have decided to seek authorisation in lieu of state legislation.

The authorisation essentially allows growers who are contracted to a particular processor to negotiate collectively with that processor. Although importantly nothing compels a processor to negotiate with the collective group.

While this process can work reasonably well where there is good faith on both sides, it has still not addressed the inherent imbalance of bargaining power between processor and growers. Growers often have very little leverage in negotiations over fees and conditions as they simply cannot transfer their contracts in most cases.

There are no provisions for boycotts in the event that there is clearly no other way to achieve an outcome. ACGC firmly believes that mechanisms be explored which compels processors to deal with a legally constituted bargaining group and prevents them from excluding individual growers from such a group.

Contracts once they are entered into usually have provision for dispute resolution through mediation and often non-binding arbitration.

Therefore ACGC believes it will be very important for the future stability of the growing sector at least that the current review of the *Australian Consumer and Competition Act 2010* should look at how imbalances in bargaining power in the value chain can be redressed whether they be with processors and their suppliers or further up the chain with supermarkets etc.

The current Act provides, in practical terms, very few opportunities for small businesses to improve their bargaining power beyond the capacity to seek authorisation for collective bargaining.

2. ACGC is very concerned by the somewhat decisions made by some supermarkets to require changes to farm production systems for a perceived benefit in the market place. This appears to happen with any real consideration of its impact on its suppliers or for that matter its customers in some instances.

Coles and Woolworths are now requiring that all unbranded product is sourced from farms that are accredited under the RSPCA Approved Farming Scheme. This means that the vast majority of meat chicken farms in Australia will need to be accredited as will the processing plants.

This effectively puts the control of animal welfare standards in the chicken meat industry in the hands of a third party commercial entity rather than where it belongs in the Federal and State regulatory arena.

Currently Codes and Standards for Animal Welfare are negotiated with all stakeholders are hopefully based on the known science rather than perception. It is important that this process continues.

There is a significant cost impost on the industry to meet these standards both in terms of capital costs and ongoing input costs. Ultimately these will have to be borne by some part/s of the value chain if they are not to be passed onto consumers which in the longer term is unlikely.

Reduced productivity will ultimately impact on the efficiency of the industry and require an increase in the farming footprint well beyond that need to meet just increasing demand.

Consumer choice is also being limited and with an increase in price points will there be a push to import cheaper product as has happened in the UK .

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