

Thinking of buying a poultry meat farm? – things you must consider first

General industry information

The NSW poultry meat industry is approx 250 growers contracted to 6 processors; Inghams, Bartters, Baiada, Cordina, Red Lea and Sunnybrand. The main poultry growing areas in NSW are the Sydney Basin, Central Coast, Hunter Valley, Southern Highlands, Tamworth and Far North Coast.

The industry in Australia has either State based legislation to protect growers from processors abusing their market power or ACCC authorisations to collectively negotiate. NSW is legislated under the *Poultry Meat Industry Act*, however the Act has no ability to determine the growing price and approve contracts. It has yet to be determined if it can set minimum contract terms or act as a dispute mechanisms over contracts.

Buy an existing farm or build new sheds?

Entering the industry presents you with two options; either buy an existing farm or build new facilities. An existing farm will be cheaper to buy than build at today's cost and an existing contract may be attached. However, the sheds and equipment may need expensive upgrades as part of that or future contracts. The advantage of building new sheds, to processors high standards, may give you a competitive edge if the market for shed space tightens. Regardless of the shed age, there is significant wear and tear on equipment and facilities and the technological advancements are rapid meaning an average replacement cycle of 5 years for some components. Also, new facilities are very expensive and the pay back period can be over 15 years.

As it is currently illegal under the Act for a processor to process birds without having a contract with a grower therefore you will only be building sheds with the promise of a contract.

Processing companies, via a contract, purchase the services of growers (their high technology sheds and equipment provide all the needs of the birds throughout their 4 to 6 week life - ventilation, heat, cooling, humidity, feed, water, bedding, disease control). Under these contracts, processors supply day old chicks, feed, medicines and regular and frequent advice on growing as well as picking up and delivering grown birds to the processing plant. Grower's responsibilities under contracts are to provide land, sheds and equipment and production expertise in return for a price per bird or return per square metre of shed space.

It is important therefore to buy a farm with a contract that you consider fair and reasonable and of sufficient length (eg upward of 5 years) enabling you a return on

investment. Legal and financial advice is needed to interpret this contract along with the experience of current growers and NSW Farmers Association.

What is the rate of return on this investment?

The rate of return on investment can be below the cash rate and it depends on the following:

- How many batches of birds you receive per year (5.8 batches is very good)
- How many birds per m² you receive per batch (depends on what density your shed and equipment can support)
- How many birds die during the growing period (either expected mortalities of 4 to 5% or abnormal losses which may involve tens of thousands of birds)
- How well you grow the birds in comparison to other growers in that company's "pool" (the ratio that kg of food are converted to kg of poultry meat), as deductions may be made from your payment as per the contract terms

Processing companies may focus on the positive side of income return therefore it is important to discuss with other growers the potential for deductions from your fee.

How are the growing fee and contract terms negotiated?

The national industry trend is for growers to negotiate collectively with their processing company to increase their bargaining power. These groups are increasingly using third party or independent expertise to negotiate on their behalf or with growers within various rules or codes (either endorsed by the Australian Consumer and Competition Commission or under various State legislation). As all legislation does come under review, these frameworks may change over the life of the growing contract. The NSW Farmers' Association can offer advice on these matters.

Future prospects in the market?

Chicken meat consumption is growing at 5% per year and the number of birds per shed continues to increase (increased bird densities and increased shed size).

Future concerns in the industry include the potential for future fresh chicken meat imports. Complicating factors are that disease such as Avian Influenza are easily spread around the world, vaccines and meat processing can prevent or remove disease risk and Free Trade Agreements between Australia and our competitors are signed. Currently only a small proportion of cooked meat is allowed into Australia. The NSW Farmers' Association works closely with other organisations on such national matters and can provide advice to growers.

What are the risks and benefits of contract poultry growing?

Positives

- Reasonably steady incomes unlike other agricultural enterprises
- Considerable amount of the inputs are provided by the processing company rather than growers negotiating for purchases in fluctuating markets
- High level of technical support encouraging efficiencies

Risks

- The threat of market power is always present (even if not exercised by processors)
- Processing companies completely control the quality and variability between farms of the animal health inputs (eg feed)
- Processors don't offer a guaranteed income
- Processor shed requirements continually change
- Inability to readily put your growing services "on the market" to the highest bidding processor i.e. a monopsony market

Environmental and land use conflict?

Poultry farms can produce offensive smells and noise which can be a source of conflict between neighbours in areas of urban encroachment. There are also strict Local Council requirements which can be worked through with reference to the NSW Chicken Meat Farming Guidelines from NSW Department of Primary Industries

<http://www.agric.nsw.gov.au/reader/meat-chicken>

The disposal of dead birds is an additional community and industry concern and council rules should be investigated.