Growing the Business of Farming | NSW Farmers Association

NSW Poultry meat industry

Background

- The NSW poultry meat industry comprises approximately 260 independent farms rearing chickens on a contract basis for poultry processors. The gross food revenue from the NSW poultry meat industry is $1billion.
- Poultry meat production is different to other agricultural commodities in that growers never own the chicks they rear. Processors provide the main inputs in the growing process namely chickens, feed and medications. Processors pay chicken growers on a per bird basis (around 53c/ bird) to raise the chickens in accordance with contracts signed between processors and growers. This represents 5-10% of processor costs. As price per bird is low and grower costs have risen by 15% in the last 5 years, grower profit margins are low and high turnover of chickens is essential to earn an income.
- Growers contribute approximately 40% of the capital investment in the industry through ownership of farms, sheds and other facilities. The newer contract farm consists of 3-4 environmentally controlled growing sheds costing upward of $500,000 each. Processor specified upgrades of existing shedding further add to required capital investment by established growers in order for them to remain in the industry. As a result chicken meat growing is one of the most expensive and capitally intensive agricultural enterprises.
- There are only 6 processors in NSW and in order of size comprise Bartter, Inghams, Baiada, Red Lea, Cordina, and Sunnybrand.

NSW Poultry industry problems

- Growers are at a significant bargaining power disadvantage compared to processors when negotiating contracts and growing fee. Because processors own the birds, are relatively few in number and are geographically specific, growers have little ability to exercise bargaining power by threatening to switch processors when negotiating contracts or growing fees. **This problem is demonstrated by a 46% decline in grower returns between 1999 and 2003 and grower fees not keeping pace with inflation (ie since 1990, fees increased by 24% while CPI increased by 31%). This compares with processor profits which have increased by 47% between 1995 and 2003.**
- Processors are demanding that growers convert to tunnel ventilated sheds or they will not be granted new contracts. However, processors provide small financial incentive for growers to convert however the pay back period can be over 15 years. Tunnel ventilated sheds differ from conventional sheds in that they are completely insulated and have large fans to draw evaporatively cooled air through the shed. The cooler sheds therefore allow more birds to be placed in them. However, tunnel sheds have an upfront capital cost of around $500,000 and have additional operating and maintenance costs. Further, the cost savings from tunnel sheds only cover the additional operating and maintenance costs and not upfront capital costs.
- Growers cannot exit the industry easily. Chicken growing sheds are highly specialised, non-portable and have few alternative uses without significant modification. Further, chicken growing is undertaken on small blocks of land which is often unattractive for other agricultural uses. With the continued decline in grower fees, chicken growers have difficulty in exiting the industry. **One third of the industry has exited since 2003 causing considerable direct and indirect impacts on local economies and communities. These growers are located in the key marginal seats of Maitland, Penrith and Camden**.
- An effectively deregulated industry. In December 2005, the state government removed the price setting capacity of the Poultry Meat Industry Committee under National Competition Policy. Growers and processors had effectively been negotiating their growing price without the assistance of statutory committee however, some prices could not be negotiated and required dispute resolution through the committee. Without this function, some growing contracts have included a price negotiating mechanism and other groups have made informal arrangements. There has been no improvement in grower terms and conditions since this effective deregulation. Developing regulations on what is required within contracts and a code of conduct for negotiations has been a prime function of the Poultry Meat Industry Committee during 2006 and 2007.

What the Association is doing

- Providing growers with assistance in negotiating contracts & grow fees with processors.
- Instigating stronger (including possible legal action) against some processors to recoup grower fees.
- Seeking legal advice on current contract inequities.
- Assisting the Grower Representatives on the Poultry Meat Industry Advisory Group which provides advice to the Poultry Meat Industry Committee (PMIC).
- Liaising with the Agriculture Minister’s office about industry problems.