

The Commissioner,
Australian Competition and Consumer Commission
27/135 King St, Sydney NSW 2000

RE: ACCC Supermarkets Inquiry – Response to Issues Paper.

Please accept the analysis below as our submission toward this Inquiry

1.0 The Australian Chicken Growers' Council

The Australian Chicken Growers' Council represents the interests of all contracted meat chicken and turkey farmers/growers (the two words are used interchangeably¹) in Australia. It is a federation of State Farming Organisations or equivalents and was formed in the late 1970s. The current CEO, and many of the current Board have been in the industry for more than 25 years and can readily draw on the expertise of some farming families going back to the formation of the industry in the late 1950's.

2.0 The Meat Poultry Industry - Statistics

Meat poultry includes meat chickens, turkeys, ducks and specialty birds (eg spatchcock, quail etc). Because few statistics are kept other than for chickens, only chickens will be considered below.

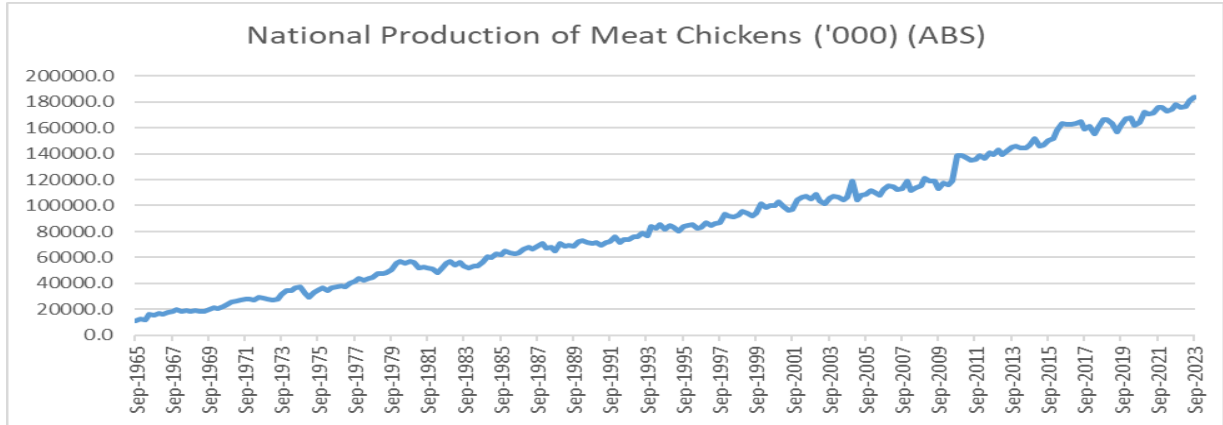
Chicken meat is the most consumed and least cost animal protein in Australia, with more than 50kg of chicken meat consumed *per capita* per year. (ACMF). Meat chicken farms are the most efficient producers of animal meat protein per year, on a kg/ha farmed basis.

Poultry meat is the least carbon intensive form of animal meat protein production; and a highly efficient user of feed and precious water; with a feed conversion ratio less than 1.70kg feed per kg of meat produced and water use (*including* for cooling) around ¼ of that of beef.

Poultry meat is a low fat, quality protein source with relatively high levels of tryptophan, Vit B12, zinc, and copper. It has a light taste which makes it versatile in cooking. Nearly 75% of chicken meat is sold as fresh product. Therefore, it cannot be transported for long periods and still retain a good shelf life for consumers because, with the exception of seafood, chicken is the most labile of all animal meats in terms of potential for spoilage.

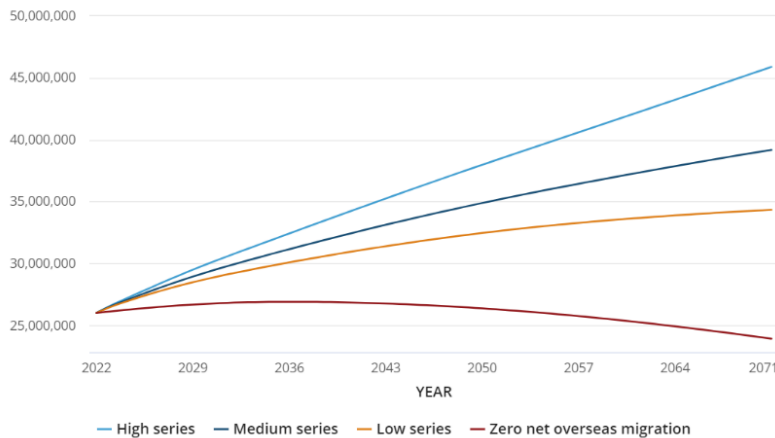
National Meat Chicken production has risen steadily with population. More than 97% of poultry meat production is consumed domestically (ACMF). So production is an accurate reflection of Australian population growth and meat preferences. "Chicken production follows population" has been the norm until the last 5-10 years whence there has been some escalation in the rate of *per capita* demand on the back of high red meat prices.

¹ The terms "chicken", meat poultry" and "chook" are also used interchangeably in this document to mean all forms of meat poultry including turkeys and ducks, even though "chook" is a colloquialisation for chickens used uniquely in Australia.



However, the population of Australia is expected to rise significantly and in a short time period.

Projected population, Australia



It is likely that Australia will continue to increase population at a rate which will be determined largely by the federal government, there being no practical difference between the two major parties on population policy.

On this basis it is estimated that at “medium” growth and accounting for loss of agricultural land near cities and planning issues, that the meat poultry industry will require up to another 700 sheds within the next 20 years just to service domestic poultry consumption.

“On paper” Australian chicken should be a valuable export commodity. Australia is one of the very few countries producing white chicken meat (corn fed chicken meat takes on a yellowish hue), and Australia has an enviable and hard-fought “low disease” status. Chicken meat packs better than many seafoods and chicken feet is a sought after delicacy in many countries (and is a high % of Australia’s minute export market). There is clearly an opportunity to position Australian chicken as premium quality, versatile and acceptable to all religions in the large and rapidly emerging middle-classes of China, Malaysia, and India among others.

However, that Australia has never developed any significant export market for chicken meat has resulted in a particular dependence on the supermarkets as outlets for bulk chicken meat. The fast food sector is overcrowded and declining slightly overall v supermarket/fresh food purchase since COVID; and increasingly “crowding the chicken piece or chicken burger out” with new and healthy options including sushi, salads and a wider variety of international foods including Mexican.

3.0 Chicken Meat and Supermarkets

Chicken meat occupies a large and increasing section of supermarket fresh meat aisles and a significant proportion of the secondary processed freezer section. Seen as a staple by consumers, chicken meat is presented as:

3.1 Fresh Product

- Whole birds frozen for roasting – the darling of 1950’s and 1960’s housewives for Sunday Roasts, this is now a minute proportion of sales.

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- Whole birds fresh for roasting – more popular than frozen, but still a small market
- Whole pieces – by far the majority of sales are thigh, breast meat, and tenderloins, usually skin-off and may be deboned, in small and large packs
- Drumsticks, generally sold in bulk packs as less expensive options
- “Pet” and “stewing” pieces – necks, giblet and other organs, bones etc

3.2 Secondary processed product – refrigerated

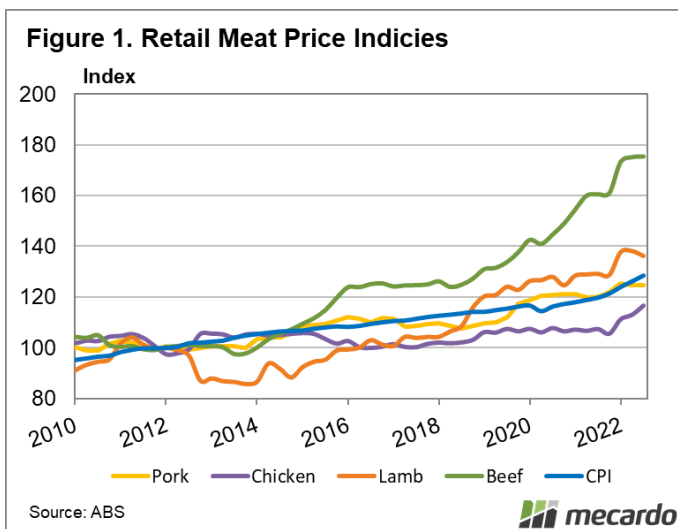
This rapidly growing sector seems to have new “experimental” entrants weekly and may include Kebabs, enchiladas, rolled roasts, schnitzels, nuggets, rissoles, mince, loaf, pulled, shredded, roast whole chicken (hot), Kiev, Maryland, Drumettes, Buffalo wings, patties, pre-cooked meal options eg butter chicken, and precooked sliced breast meat with a number of different herb and spice mixes. Originally primarily limited food service, these are increasingly offered in supermarkets.

3.3 Secondary processed product – Frozen

Beginning with Chicken Nuggets, this category is also significant in the supermarket and now includes “burgers”(patties), pre-cooked frozen meals, schnitzels, tenders, “chippies”, “buffalo wing dings”, crisp strips, precooked and frozen cuts etc breast, drumettes etc.

Virtually all of these are on offer in the supermarkets. It’s any wonder chicken is the most consumed meat in Australia!

3.4 Consumer pricing Issues as a result of the above



Poultry meat processors have been very proficient at matching domestic supply to demand in the short and over the very long term since the mid-1950’s.

Even while managing wide variations to some key farming inputs, particularly volatile grain and other feedstuff prices; poultry meat consumer pricing has been characterised by a remarkable degree of consistency over time. There is little to no seasonality of “boom-bust” pricing as per vegetables and fruit, and no climatic seasonality of pricing as seen in beef and lamb (due to drought and wet-season changes in the national population).

[Pic: Chicken meat price index rise post-COVID-19 is the smallest...](#)

Poultry meat processors are able to “play off” low grain prices due to glut, or wet seasons (results in less prime hard and more animal feed grade grain) to provide some buffer when grain prices are high (eg drought, or high % of national harvest as prime hard). (Note that poultry meat farmers have no such flexibility as they are carrying a significant % of the fixed costs of producing a chicken.)

This price stability has resulted in poultry meat being treated

- More like a grocery item than fresh produce
- As a staple food

As a result, there is a consumer expectation that prices will not fluctuate. Or rise, not even in the case of fixed cost rises (eg energy)

Supermarkets are clearly putting pressure on poultry meat processors to maintain this stance. Processors have become a mere proxy for the supermarkets resulting in almost unimaginable pressure on farmers.

4.0 Poultry meat industry - structure.

Poultry meat supply chains are markedly different from other agricultural industries in Australia.

Like many industries including dairy, supermarkets receiving poultry meat are serviced by processors as their source of product, rather than direct sale. In Australia, just two processors, Inghams and Baiada, control more than 90% of the total genetics for meat poultry.

Given the nearly 70% market power of the two major supermarkets, and that production supply consistently matches demand, it is fair to say that on paper there are no fundamental issues of countervailing power between *processors and supermarkets*, and in fact in terms of farmer negotiation, processors are effectively acting as proxies for the supermarkets.

That does not stop supermarkets “frightening” meat poultry processors daily with increased demands (eg RSPCA accreditation, “swap” to another processor etc). It appears that even though supply and demand are largely in balance, processors are frightened of exercising their considerable market power.

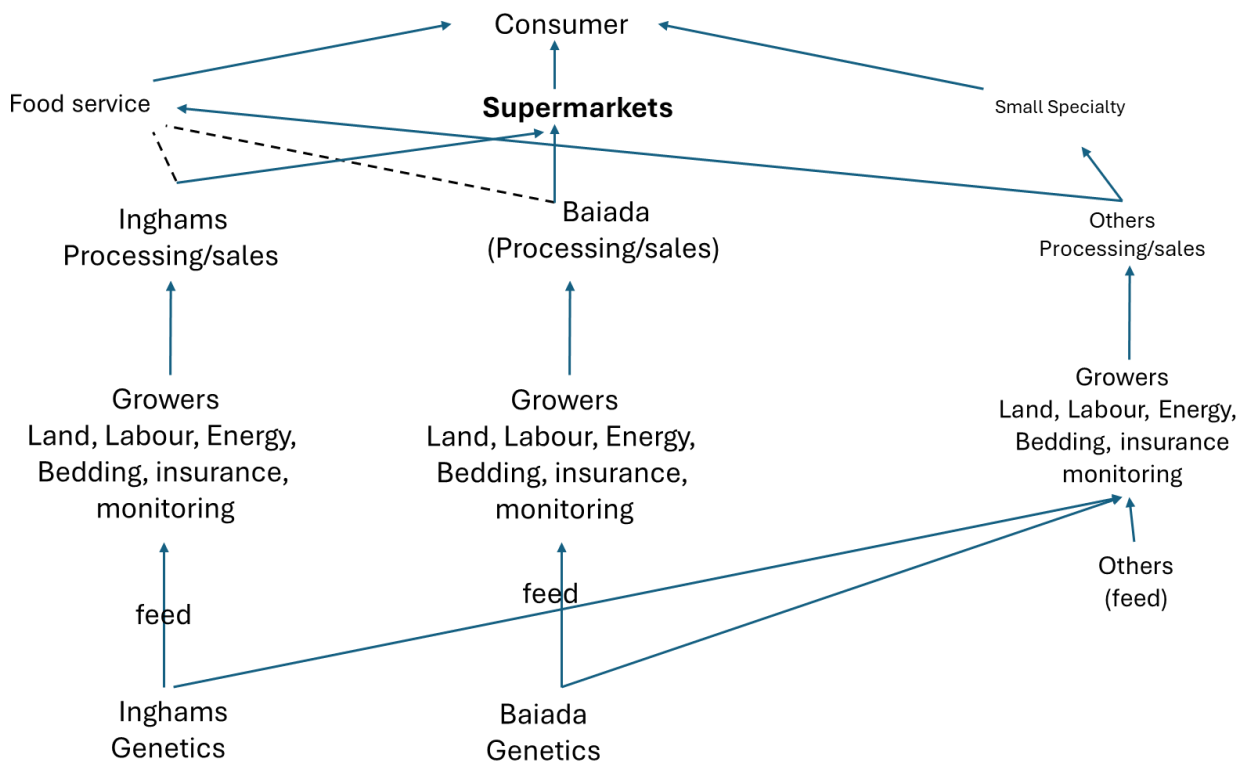


Fig 1: Flow chart of poultry meat supply chain showing grower “capture” by processors on both sides, and genetic control over “independents” held by processors.

Because processors own the “top” and “bottom” of the supply chain, poultry meat farmers are critical asset and service providers, but do not own the birds they care for and are thus tied to a single processor – in contract and in space, since the two processors have “divided” the country geographically. While being

responsible for nearly 40% of sector asset investment, they represent less than 3% of retail price. This is very unlike the red meat sector where there are many buyers, (including export), many sellers (restaurants, butchers etc) and respectful relationships.

Poultry meat farmers are wedged within the supply chain with the processors on either side. As a result there are extraordinary pressures on farmers by processors who are acting as proxies for supermarkets, and most are now struggling economically.

Poultry meat farmers are paid by the bird (averaging less than \$1/bird for chickens) or by the m²/annum. Most appear to be being paid by the bird. A small-medium chicken farm will on average stock 70,000 birds per batch (the largest farms in excess of 300,000 birds per batch) at an average 6.2 batches per year, but both these very widely depending on the processor's needs.

The intensity of the activity on a meat poultry farm is greater than almost all other agricultural pursuits. Broadacre farmers have very intense planting and harvest periods, sheep farmers intense marking and shearing, but poultry meat farmers are night-and-day, 365 days/year. Chicks/poults must be kept alive and comfortable; growing birds gain weight evenly and daily; "pickup" birds are harvested in the middle of the night and in just 3-6 days the entire farm has to be emptied, scrubbed, disinfected and set up for tiny baby chicks/poults again. The tiniest problem can throw the whole timeline for both farmers and processors.

The Value (or not) or RSPCA Accreditation

In the 10 years since this program was introduced, it is estimated that the RSPCA has earned \$20M/year, for no supermarket differentiation value, no premium price at checkout, so consumers don't "win".

Regular "inspections" cost farmers time and money for no additional return, only the threat that they will be terminated if they do not comply. So they don't "win".

Processors are hit with monitoring and investment cost, so they don't "win".

Most QA schemes have a reward attached, for the RSPCA scheme, it's just penalties.

...and the Woolworths CEO received a parting package of \$24M

5.0 A Failure of Competition and Failure of the (Super?) Market Supply Chain

EXAMPLE: Growers receive around an average \$1 growing fee for a bird of around 2.8kg, or around 35c per kg. A whole roast chicken from the supermarket, which is one of the lowest-cost poultry presentations, is around \$12/bird. So AT BEST, growers receive, on average, less than 4% of retail chicken cost. (Note that dressing % is not included as virtually all parts of the bird are saleable (feet, feathers, giblets etc) and high value cuts (below) offset lower by-product prices).

That \$12 bird is around 1.65kg, or around \$7.27/kg. Note that prime chicken cuts (breasts around 30% of total weight, thighs around 25%), which represent the majority of bird weight, retail for around \$16/kg (Coles) or up to \$34/kg for free range.

Secondary processed product, which uses small volumes of lesser chicken cuts bulked out with other ingredients (eg nuggets, tenders etc) can retail for \$14/kg or more but have only 39% chicken meat in them.

So the average actual "take home" for the grower is around 2.7% of retail cost.

There is no doubt that there is market failure in the supermarket sector and this is not confined to Australia – in 2016 the United Nations Conference on Trade and Development (TD/B/C.I/CLP/38) noted that this was the case in many OECD countries leading to "abusive and unfair practices difficult to counter through competition law". The same report also notes that:

"Anti-competitive practices of supermarkets are widespread, simultaneous and multifaceted, pointing to a structural market failure".

In the poultry meat sector, with two major poultry meat processors controlling more than 90% of Australia's meat poultry genetics; with two major supermarkets controlling around 70% of food and grocery retail; and with production virtually perfectly matching demand and very constant over time; there is clear countervailing power in the Food and Grocery market between *processors and supermarkets* in relation to meat poultry. This is an even better matched countervailing power than the government noted when it was introducing a mandatory Code of Conduct for the Dairy Industry. Having noted that, processors

It might be “2 processors: 2 supermarkets”, but it’s still the supermarket has the power...

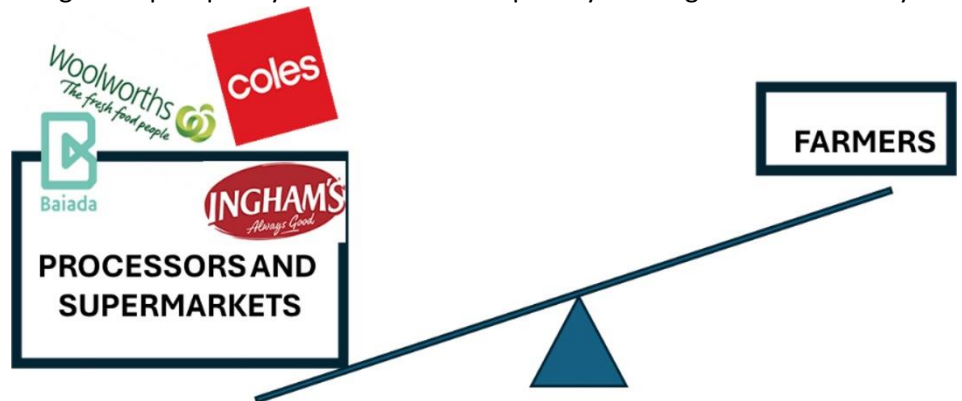
Coles is now reported to be stipulating factory and farming shed capital upgrades with the subtle suggestion that “if you don’t comply, you don’t supply”. It’s also reported that Coles will apply a financial penalty to the processor for minor issues, like having a label in a wrong spot on the packaging.

Another reported strategy is that the supermarket will cancel or reduce the size of an agreed order, which forces the processor to put the excess supply of fresh meat into the freezer. The supermarket then places another order almost immediately and offers to take the frozen product at a significant discount due to consumer preference for fresh meat. The processor is almost forced to comply due to the financial cost of holding frozen product.

are still harangued by supermarkets daily, as there is no alternative export market to take meat poultry produce, unlike red meat.

Just like the dairy farmers and as a result of the above, this market power has resulted in the processors becoming a proxy for the supermarkets – by thuggish business behaviour towards growers who are trapped geographically and economically to a greater degree than dairy farmers ever were.

Traditionally, small businesses including farmers concentrate on turnover rather than profit, and depreciation as an abstract accounting concept is poorly understood. Meat poultry farming has been seen by a significant number of people wanting career change (particularly city dwellers) in the same way as franchising is seen by many inexperienced business people as a “safe”, with business. In fact, businesses with a single customer are uniquely vulnerable and are often maltreated by their customer.



Pic: how things stack up against meat chicken farmers in the poultry industry.

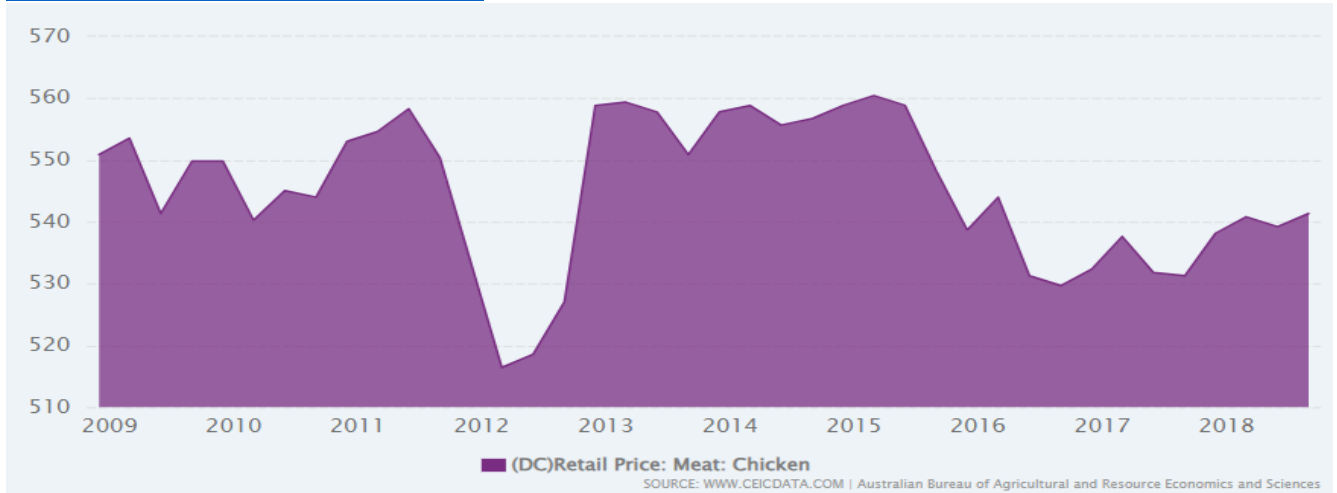
Thus farms traditionally have been able to be sold and new chicken housing built. And so the processors, by means of intensely complex contracts and bullying negotiating tactics along with very public removal of appointed grower representatives; have been able to effectively accumulate over time the farmers’ profit margin, then their depreciation, and eventually the capital gains on land. The result is an effective subsidy of the supply chain by growers.

This has progressed to the point that even some corporate farms have stopped or slowed their shed building programs, farms are being sold up, farmers have lost their superannuation, and processors are now contracting some old and poorly maintained farms just to manage their throughput. However, this has not so far stopped processors offering unconscionable contracts to current growers and enticing new farmers to move further from cities, increasing “food miles”.

While ever there was another ex-corporate-employee who wanted to “go bush/tree change” or “buy an income”, or another corporate willing to build shedding, all was OK. (A similar model has played out in the retail mall sector). Both have reached their limit – new meat poultry shedding construction has slowed in the face of a rapidly increasing population and increased demand for poultry meat as food.

Thus, the continued virtually flat retail prices of chicken meat to consumers in the face of ongoing rises in cost of production over a long period is due to farmers being forced to subsidise consumer prices.

Pic: Australia's average retail price:Chicken



This pattern also appeared in the dairy and horticultural industries, in both cases the Australian government response was a mandatory Code of Conduct. This is critically needed for chicken meat growers but there has yet to be any commitment by the government for meat poultry growers.

In the last 2 years, the average price of the most popular chicken cuts has risen at more than \$2/kg, or around 18%. BUT farmers have had no price rise in spite of rising costs. The Fels report (2024) identified the key elements clearly (table 1)

Note that automotive fuel, gas, electricity, and insurance are key inputs for farmers and the figures in the tables are averages.

Actually, farmers' insurance (which they are required to have under their contract) has risen 500% in the last 5 years.

BUT new contracts are currently being offered by processors at a lower rate than that which has been paid for the past 5 years.

TABLE 1. PRICE INCREASES: BETWEEN MARCH 2021 AND SEPTEMBER 2023

Automotive Fuel	45.4%
International Travel and Accom	36.3%
Gas and Other Household Fuel	35.7%
Electricity	22.3%
Oils and fats	34.2%
Insurance	22.6%
New Dwellings Purchases by Owner-Occupiers	31.1%
Groceries:	
• Cheese	27.3%
• Bread	24.1%
• Milk	22.7%
• Ice cream and dairy products	22.5%
• Eggs	19.7%
• Breakfast cereals	19.2%

Pic: from Allan Fels report 2024

Another key issue in the market power game is cost-plus pricing. Any increase in costs at farmer level that are allowed to be passed on are then multiplied by poultry meat processors and supermarkets to result in an artificially inflated price rise for consumers.

This can be seen in Example 2 (following):

Example2: How “COST PLUS” pricing drives up consumer cost unnecessarily.

Say a farmer grows a chicken for \$1.

Say the processor processes that chicken and sells it for \$5 (500% lift), so he makes \$4.

Then the retailer roasts that chicken sells it hot for \$10. (100% lift). So he makes \$5.
(Actually, the retailer is currently selling that hot roast chicken for \$12, but \$10 will do for this example).

If the farmer receives a 10% price rise because his costs have risen, that's \$1.10. That's **10c** extra for the farmer to cover his costs.

With 500% lift at processor level, that's \$5.50, (because he paid the farmer \$1.10).

Now the processor is making \$4.40, that's **40c** better off. For no extra work and no extra cost. Just because of “cost plus” pricing.

Now the retailer takes that \$5.50 chook and sells it for \$11.00. Now he's **100c** better off. For no extra work and no extra cost

So, for the 10c rise to the farmer, the processor pockets 40c extra and the retailer 100c extra.

SO any price rises to consumers as a result of rising farm costs will be **93%** due to the processor and retailer markups, and only **7%** due to the farmer, with “cost plus” pricing.

WHERE'S THE PRICE CAPTURE?? **WHO** BENEFITS??

6.0 What's the Difference between a Meat Poultry Farmer and other Farmers?

- Poultry meat farmers represent *more than 40%* of the total poultry industry fixed assets in shedding/housing, roads, biosecurity systems, internal equipment including ventilation/feed lines/water lines, and other necessary equipment.
- Most farmers have an annual cycle or longer (eg sheep, fruit etc) and some intensive farmers can achieve 3-4 cycles per year. Poultry meat farmers usually achieve 6+ cycles per year.
- A small-average sized meat poultry farm may have 70,000 birds being raised at once, as a minimum.
- Poultry meat farmers cannot rely on adult birds to raise the baby birds. The farm will receive those 70,000, 3-6 *hour* old baby birds, over 2-3 days and the farmer keeps them alive with high-intensity stockmanship (which may include sleeping with the birds!).
- Poultry meat farmers do not own the genetics. This means that if the processor has genetic issues the farmer just has “to take it”.
- Unlike other farmers, poultry meat farmers cannot determine their own market time, or negotiate directly with supermarkets or other potential markets. Because the processor owns the genetics, the farmer just “has to take it”. Similarly farmers cannot develop their own export markets.

7.0 RESPONSES TO SPECIFIC CONSULTATION ISSUES

7.1. Whether there is effective competition in the supply of groceries in Australia, and particularly between supermarkets.

No detailed comment, other than to note that:

- The failure of effective competition would appear to be well established by comparisons with other OECD countries, previous ACCC and other inquiries, and market analysis.
- There is clear competition between the two major suppliers to deliver excellent returns to shareholders.
- Even where there is a *supposed* balance of power (eg 2 major poultry meat processors controlling >90% of the genetics and 2 major supermarkets controlling >70% of the consumer grocery markets) the supermarkets still engage in controlling power over the processors including demanding welfare standards, wholesale price and marketing spend.
- Poultry meat farmers have no transparency of pricing throughout the supply chain. The processor stands between the supermarkets and the farmers.

7.2. Market structures for the retail supply of groceries in Australia.

ACGC can only comment for the poultry meat industry and this can be seen in detail at 3.0 and 4.0.

7.3. The key areas of competition or differentiation between supermarkets in Australia.

No detailed comment, other than to note that most poultry meat is sold fresh, and a substantial % is generically labelled in a manner similar to red meats.

A huge majority of meat poultry (fresh, frozen, secondary processed etc) goes to market via supermarkets (butchers stock poultry as an “afterthought”, poultry is not significantly held on restaurant menus and fast food is a relatively reducing market for poultry as offerings become more diverse).

So the meat poultry industry outputs are intimately tied to supermarkets, and most fresh product is either unbranded or minimally branded.

Note also the comments on pricing in 3.4

7.4. The practices supermarkets use to attract and retain consumers, and any changes observed over recent years (up to 10 years), including, for example:

- *price and discounting practices or promotional cycles*
- *stocking particular products or brands.*

No detailed comment, other than to note that poultry meat is seen by consumers as a staple food largely unaffected by the significant price fluctuations seen in red meat (due to drought etc).

Note that meat theft from supermarkets does not include poultry meat as it is seen as affordable.

7.5. How consumers respond to the supermarket market practices identified in your response to question 4.

Relatively consistent pricing (see 3.4) and processor’s careful matching of production to domestic supply has resulted in relatively consistent and predictable demand for poultry and a reputation for the meat being versatile and affordable. Poultry meat is now the most consumed meat in Australia at 50kg/head/year. In

the last 18 months the per kg price of the cheapest *prime* cuts (skin-off thigh and breast fillet has risen by at least \$2/kg, from *circa* \$11.99 to *circa* \$13.99 or around 17%, during a time period when the predominant food grain was very cheap due to flood damaging wheat down to animal feed grain.

While it is true that energy did rise significantly during this period, this does not offset this rate of rise of prices.

Significantly, farmers were NOT provided with a price rise (they are significant users of energy and insurance, see table 1 in Section 5.0), but have actually been offered less per bird on new contracts during this period.

This is a true illustration of the market power imbalances within the poultry meat supply chain and an eloquent example of both farmers being forced to subsidise consumer prices, and the need for a mandatory Code of Conduct between poultry meat farmers and processors.

7.6. The factors determining pricing for groceries, including policies and strategies for setting discounts and promotions.

No comment

7.7. Whether supermarket prices, profits and margins have increased or are in excess of those likely in a competitive market

They are likely to be in excess at either the poultry meat processor or supermarket segment of the supply chain – as witnessed by the reduction of farmer returns in the face of rapidly rising consumer prices, to the point that farmers are now subsidising consumer prices.

7.8. The role of supermarket loyalty and rewards programs and how they affect competition.

No comment.

7.9. The role of data and data analytics in how supermarkets compete.

No comment

7.10. How online retailing has impacted competition between supermarkets.

Unlike other categories eg pet, fashion etc, online retailing in the supermarket sector is likely to have reduced competition because:

- There are no disruptor “wholly online” retailers in groceries as there are in other categories eg pet circle, budgetpets, Temu, Schein.
- Consumers tend to go to their “usual” site or app and compare products within this app, rather than to compare between different company offerings. Again this is different than with other retail sectors.
- If you type your preferred clothing item into “Google Shopping” you will get up to 100 options of exactly what you want. If you type “[Brand name] Cheese” into “Google shopping you will get a plethora of sizes, options, items that do not deliver to your area, and Unit price (where it is shown at all) is usually on the second page so you have to click into it. This is a significant disincentive to shopping for food online.

- Particularly for “click and collect” and home delivery, geography plays a role, (as is also the case with brick-and-mortar supermarkets), the most local is likely to be the one first chosen
- Notably, Aldi does not provide online services, immediately removing that competition from the online sector.

7.11. The role of home brands in how supermarkets compete.

The significant majority of fresh poultry meat is sold either unbranded or poorly branded. Home brands are seen as staples, and poultry meat is seen as a staple.

There is little to no competition between supermarkets on the pricing of fresh poultry meat.

7.12. The factors relevant to decisions on whether to enter or expand in Australia, including any barriers.

No comment

7.13. Examples of supermarket entry, exit or expansion (particularly in the last 10 years), including the reasons for the success or otherwise of new entry or expansion and the reasons for exit.

No comment

7.14. Whether you foresee any new supermarket entry or expansion in the next 5 years.

No, and significant expansion of “minor players” (eg Costco, Aldi, IGA) is also relatively unlikely. Any growth will be in new population areas, and it is significant that at least Coles is now developing whole shopping malls in new areas and buying some older ones to ensure coverage and manage competition.

7.15. The experiences of consumers in their dealings with supermarkets.

No comment.

7.16. The structure of the grocery supply chain(s) and market(s) you operate in, including:

(a) an overview of each step in the supply chain(s)

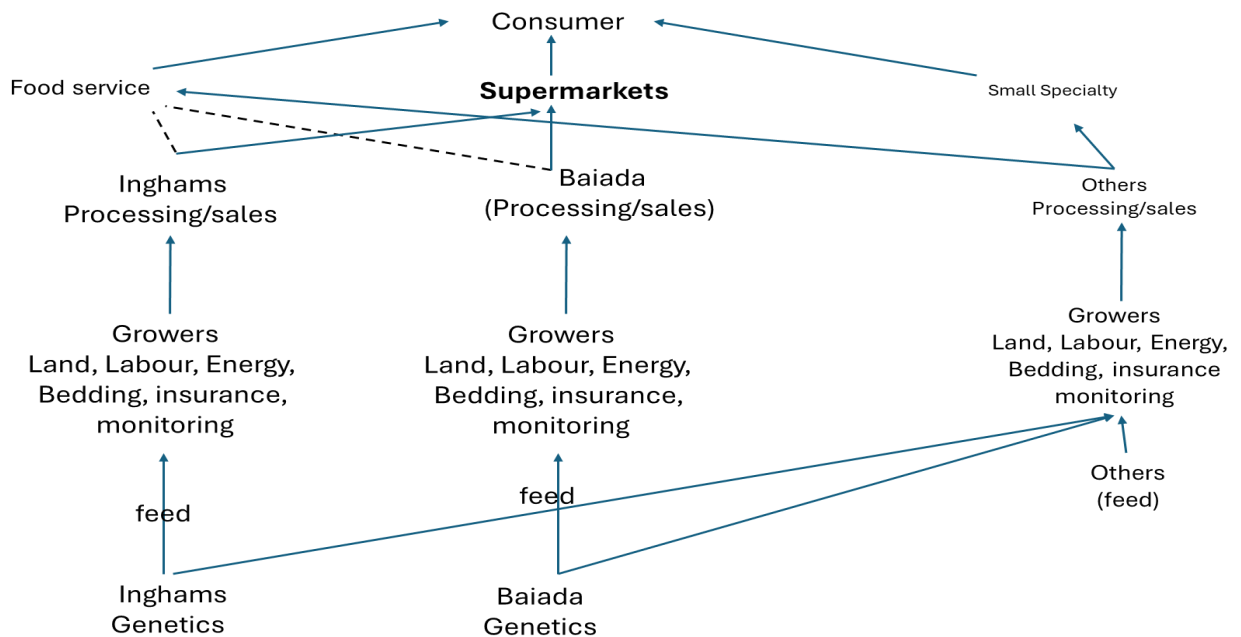
(b) your role in the supply chain(s) or industry.

You can choose to specifically identify and describe the business you operate or provide a general description of the type of business you operate that does not specifically identify you.

Please see 1.0 through 4.0

7.17. The nature and extent of competition at each level of the grocery supply chain(s) in which you operate (other than at the retail level, which is discussed in section 2 above).

In very broad terms the poultry meat supply chain looks like the below:



Tracking the flow of money and activity along the supply chain:

- Genetics/baby birds. Inghams and Baiada have complete control over 99.9% of turkey genetics and >90% of chicken genetics, so they essentially control the entire supply chain at that point. There is no effective competition in this sector, and demand feeds back through the supply chain from the consumer such that supply is carefully managed to meet that demand – and hence there is no discounting and very little price fluctuation. The relatively short lifespan of the chicken, and careful management of egg (chick) donor flocks means that changes to demand can be accommodated within 4-5 months, which is very different to most horticulture or red meat systems. That is because there are only 2 recognised meat poultry genetics providers worldwide, both are located internationally, and Inghams and Baiada have one exclusive license each so they have ultimate and absolute control of supply.
- Inghams and Baiada provide hatchlings (baby birds = genetics) to their own businesses, and also sell to the smaller processors – thus giving them a high level of control over their smaller processing competitors. Hence competition is stifled at this point.
- Baby birds are provided by Inghams, Baiada and smaller processors to “growers” (farmers) farms. There are just over 700 of these farmers ranging from family through to corporate in specific and increasingly isolated areas of Australia.
- These farms are divided by the 2 major processors along predominantly geographic lines largely dependent on the location of their processing plants, which in turn is at least partly on an unwritten understanding between the processors about geographic coverage. For example, Baiada completely controls the entire WA growout, Inghams “owns” most of SE Qld and Baiada is the only processor for Far North Qld. In SA there are only 2 processors, Baiada is “exclusive” to the Tamworth area in NSW and most of Griffith. Farmers have usually only 1 processor to whom they can contract for this reason. While there are technically 3 processors in Vic and 2 in the Sydney region, a farmer cannot change processor without the permission of that processor.

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- e) The processors develop their own nutrition and there is some competition between feed raw material suppliers, but in many cases the processors own the feed mills. There is no competition for finished feed because they are contracted to, or owned by the processor.
- f) Farmers provide housing, feeding and drinking equipment, temperature control equipment, bedding (in most cases), land, labour and risk management to the processor to whom they are contracted. Farmers are “owned” (contracted) by the processor, who in most cases puts them into a supposedly competitive “pool” of total payments, from which farmers receive a share according to their alleged competitiveness – when ALL the farmer’s inputs are different and therefore there is no grounds for comparison. Farmers receive different hatchlings from different flocks, different feed, have different disease issues (or none), and so there is no genuine competition between farmers. The processors manipulate all aspects of the “pool” including weighbridge dockets, bird placements, and medication. Farmers have no choice in these supplies and no transparency of pool inputs.
- g) Processors do not compete for farming expertise and excellence due to geographic “carve up” and unwritten agreement. They will, however, meet to transfer farms from one processor to another when it suits them, which is often the only way a farmer can avoid bankruptcy. So there is no competition at farm or farmer level.
- h) Birds are grown to market weight by the farmer and harvested “picked up” by processor-contracted “pick-up” crews, usually in stages. Pick-up crews are contracted to the processor and enter sheds over a period of nights to ensure correct weight reaches the processing plant, loaded onto transport trucks and sent to the processing plant. Farmers are required to be “on site” during the pickup process through the night for up to 4-5 nights, and still care for the birds during the day.
- i) Processors own or contract the processing plant. Plants are geographically located to suit an individual processor and there is no sharing of plants. Plant supply = demand, so there is no competition in this sector.
- j) Processors provide finished poultry meat products to the supermarkets. With 2 major processors, 2 major supermarkets and supply = demand there is no argument that there is lack of competition at this point in the supply chain. That does not preclude robust negotiations between the processor and supermarket however; and there is some competition around pricing of fresh product and shelf space for secondary processed product. Notably since all the inquiries began, both supermarkets have almost simultaneously offered “specials” on breast and thigh meat to the price levels of 18 months ago “down down” from the inflated higher prices.

Thus there is so little true competition along the poultry meat supply chain that the poultry meat sector is better defined as a “**wholly owned/controlled poultry meat duopoly with some contracting**” than a competitive supply chain.

Of note is the extent of capture of poultry meat *farmers*: they are hemmed in by processors above and below (genetics thru processing) and geographically.

This makes these farmers more vulnerable than

- Franchisors, based on extent of farm capital expenditure. Note that Franchisors have a mandatory Franchising Code of Conduct with their franchisees to oversight behaviour.
- The Horticulture industry. Note that this industry has a mandatory Code of Conduct between farmers and their processors to oversight behaviour

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- The Dairy Industry. Note that this industry has a mandatory Code of Conduct between farmers and their processors to oversight behaviour,

..but the Australian Government still will not commit to a mandatory Code of Conduct between poultry meat farmers and their processors.

7.18. How vertical integration across retail and wholesale levels of the supply chain(s) by the major supermarkets affects competition.

No detailed comment, except to note that this is a key growth area for supermarkets in a very mature market due to the growth of identified and de-identified “home brands”; and that horizontal integration should also be considered as potentially dangerous in relation to market concentration.

The Coles/Woolworths duopoly moving into liquor, or hardware, or pet retail; while on the surface does not appear to reduce competition in each of these sectors; has the net effect of doing so. This is because the huge market power in the supermarket sector provides a significant financial and managerial buffer allowing these companies to take losses while entering the new sector, freezing out potentially more competitive longer standing rivals who do not have such a buffer. The effect of Bunnings on the other hardware chains including Thrifty-Link, Home Hardware and Mitre-10 is a key example of this. This highlights a key weakness in the current ACCC mergers and acquisitions policy application which should be rectified.

In a similar fashion, nobody questioned Inghams and Baiada’s takeover of feed mills or exclusive licenses for the only available genetics *at the time*, now it contributes to the huge extent of market power of these processors and their ability to force farmers into untenable positions.

7.19. How these market dynamics have changed over the past 5 to 10 years (please indicate the time period your response covers).

It is certainly the case that issues have become more widely practiced, more thuggish and more ingrained over the last 10 years - to the point where neither the duopoly supermarkets nor the duopoly poultry meat processors really accept that thuggish behaviour is a problem anymore.

Part of the reason may be the extent of shareholder activism in both sections of the supply chain, particularly trying to maintain the levels of profitability seen during and immediately after the worst of the COVID-19 pandemic. In addition, private equity companies using the Harvard model behaviour has become a significant issue for any company (that model involving takeover, asset stripping and sale, and then relisting and exit with profit).

In the poultry meat sector, the then family owned Ingham’s takeover by TPG Capital in 2013 not only heralded AU\$1BN being shifted offshore, but a new era of thuggish behaviour toward farmers as the now “listed” Inghams seeks to shore up shareholder returns. Significantly, in a duopoly behaviours are often mimicked, and predictably Baiada appears to have followed suit.

This “never miss an opportunity” behaviour includes threats not to speak to supermarkets (Feb 2024), threats not to speak to media (ongoing), short placement of birds (directly affecting a farmer’s return while bearing the full cost of the batch), refusal to provide weighbridge dockets on pick up (the farmer has to just “believe” the weight given), unverified manipulation of the pools system, charging farmers for higher than normal mortalities caused by processor issues, contract offers below that of the previous 5 years, seeming to offer a contract price rise only to remove it in other contract clauses, and so on. The list seems endless.

7.20. Contracting practices and dynamics, including:

(a) the contracting process including the nature and extent of negotiations

(b) the general terms and formats of your contracts (for example, contract length, how quality thresholds or other requirements are assessed, and the terms of supply including flexibility of supply)

(c) pricing terms and practices including whether prices are fixed or variable, the methodology for determining prices including cost pass-through or other adjustments, allowances, incentives or deductions, and the timing of payments

(d) the extent to which you are able to effectively exercise rights and options under contracts in practice

(e) how risk and reward are allocated between the contracting parties

(f) the transparency and certainty over the terms of supply

(g) renewal practices (for example, notice periods and timing).

We have no comment on the nature or variety of contracts between the “duopoly” supermarkets and the “duopoly” poultry meat processors and will focus on contracting between farmers and the poultry meat processors.

It is noteworthy that the ACCC has listed some mandatory Codes of Conduct in the discussion. Even though poultry meat farmers are in an even more invidious negotiation position than all of these industries, viz:

- Food and Grocery Code of Conduct – enacted 2015 under a Coalition government,
- Horticulture Code of Conduct – enacted 2017 under a Coalition government,
- Dairy Code of Conduct – enacted 2020 under a Coalition government

...and Codes not mentioned in the discussion paper, viz:

- Wheat Port Code of Conduct – enacted 2014 under a Coalition government,
- Sugar Code of Conduct – enacted 2017 under a Coalition government,
- Franchising Code of Conduct – enacted 2014 under a Coalition government,

...the current Labor government STILL will not commit to a mandatory Code of Conduct for poultry meat farmers., even though it is 3.5 years since the Perishable Agricultural Goods Inquiry and the government-contracted “NFF report” recommends a mandatory Code of Conduct.

(a) the contracting process including the nature and extent of negotiations

Contracting new farmers is relatively easy. There is no effective negotiation. A contract is generally given to a prospective farmer on a “take it or leave it” basis, usually at the point of farm purchase or application to build sheds on a current property. It is renewal of contracts that is difficult.

At renewal, contract negotiations may not take place at all. Commonly, at the end of contract the processor “offers” a worse contract to the authorised farmers negotiation group on a “take it or leave it” basis, and on refusal the processor may simply walk out and continue to supply birds on the old contract and previous prices. Every 6 months or so, or at the behest of desperate farmers, the processor may return with the same or only slightly better contract and the process begins again. In some states this has been happening for 4 years after the completion of the contract. Farmers are essentially forced to continue to accept chicks or go broke, however their financial situation is eroding over time. Some sell to pay their banks. While this cycle is going on, individual farmers may be approached with “sweetheart” deals (or not), preying on that farmer’s vulnerability (which may include command of English or cultural issues) to break up the farmers’ group negotiation. Processors have a “rule” that farmers will never achieve more than 60-75% of CPI at best outcome on contract review, regardless of magnitude of CPI or price rises of elements not counted in CPI, so all farmers are worse off with every new contract even if they achieve a contract. Recently, processors have announced that they will not offer CPI changes at all. CPI “discounting” appears to be a way to check growing

fee increases, and farmers are “informed” that it is to their detriment if their processor is not financially healthy.

At the present time, **every** contract examined by independent solicitors has resulted in an instruction to the farmer not to sign. However, farmers may not be able to take that advice due to financial constraints applied by the banks, many of whom tie an ongoing contract to the continuation of bank loans/overdrafts.

In recent times, processors have developed contracts that superficially appear to increase prices, but on closer inspection take away any rise (and more) by penalties and costs in other areas. In a recent case, what appeared to be an 2c/bird rise was actually a 3.75c/bird reduction, because the processor reduced the “benchmark” feed conversion ratio against which farmers’ performance is measured. As a result nearly all farmers in that group would actually be penalised for “poor production”. Similarly, another contract which appeared to have a price rise actually reduced bird placements, so again the farmer would be worse off.

(b) the general terms and formats of your contracts (for example, contract length, how quality thresholds or other requirements are assessed, and the terms of supply including flexibility of supply)

Contracts at commencement may run for up to 10 years, but this is rare and usually only associated with substantial capital investment.

Many renewal contracts are either 5 or 7 years (occasionally longer if there is substantial additional capital investment “required” by the processor, but notably never long enough to recoup that investment), but some are as short as 2+2.

All contracts have a termination clause “for poor performance” as assessed by a performance “pool” which is manipulated by the processor.

Most contracts do not offer automatic renewal – thus the farmer’s investment is supposed to be recouped in 2-7 years, or may offer renewal “at the discretion of the processor” or “by mutual agreement”.

Contracts either do not mention stocking rates and densities (which is the source of a farmer’s income) but the farmer may receive indicative (non binding) signals from the processor, usually verbally or occasionally in other documents.

Instant contract termination is offered for failure to follow various policy manuals, which may not be shown to the farmer prior to contract signature and may be changed unilaterally by the processor at any time, without consultation with the farmer.

All contracts require the farmer to bear the cost of dead bird disposal, even though the birds are owned by the processor and the deaths may be directly attributable to the processor (eg failure to vaccinate, infection in the hatchery). Some current contract drafts “for negotiation” include the processor’s right to also charge the farmer for the processors’ costs of owning the birds including donor flock charge/hatchery attributable cost, transport to the farm, value of sales foregone etc) so the farmer would have to pay twice for the birds owned by the processor.

At least one current contract offers termination for “biosecurity breaches” when the most common biosecurity breach on farms are processor staff and processor contracted staff (and their vehicles and equipment) entering farm premises.

Farmers have no choice in accepting birds – partly because the *entire* supply chain is so finely tuned that it would backlog instantly if large farms could not accept birds on the day that they were born. Farmers are required to be available 24:7 and are not granted holidays unless alternative labour is available. One processor recently issued a letter to farmers stating that medical leave will not be granted, on pain of contract termination.

Contracts also include the processor determining at its sole discretion if a farm sale can proceed. If a processor deems the proposed buyer “not adequate” then the sale does not proceed, or it proceeds without a contract at a discount up to some millions of dollars.

This is just a sample of the “fun” in meat poultry farmer contracts. Examining individual clauses is not sufficient to determine if these contracts are unconscionable - examined in totality, they are not.

(c) pricing terms and practices including whether prices are fixed or variable, the methodology for determining prices including cost pass-through or other adjustments, allowances, incentives or deductions, and the timing of payments

Contract pricing is supposedly fixed as a “per bird” or “per square metre per year” rate, but actually becomes partially variable based on position in the “pool” (which may penalise or reward), “excess” mortalities, or penalties applied depending on the contract and the processor.

Methodology for determining prices was originally based on a “model” farm of approximately median size, to which was applied all fixed and variable costs, allowance for owner labour, a consideration for depreciation and an assumed return on investment. This “model farm” pricing was originally adjusted by the half-year, based on actual of CPI adjustments to the fixed and variable costs &/or CPI.

Over the last 10-15 years however, the “model farm” has disappeared, processors have announced that farmers will never receive more than a 75% of CPI adjustment and actual costs are no longer considered. ROI has disappeared in negotiations. In more recent times some processors have now announced that they will not consider more than 50% of CPI – and that in spite of the fact that many of the elements in farming variable costs are not considered in CPI and have risen considerably faster than CPI. So the net position has been worsening for the last 15 years.

Then there are the unusual and shocking pricing issues. After a major processor exited a region, the remaining processor used the opportunity to require producers to accept a decrease in payment mid-contract despite prices having been previously agreed, or risk having their contract terminated when it is next reviewed.

On the bright side, farmers are normally paid at or close to the due date, unless there are adjustments which can then take longer. That is because so many farmers are living “hand to mouth” now that they need the payment for the previous batch of birds to fund the “setup” for the following batch.

(d) the extent to which you are able to effectively exercise rights and options under contracts in practice

There is little to no extent to which individual farmers are able to effectively exercise their rights and options, and indeed they may be vilified or terminated for “poor performance” if they do.

Farmers do not have access to their own records that are held by the processor, including weighbridge documentation, or the actual calculations as to how their position in the pool is calculated, or even the exact number of chicks “placed” or finished birds picked up.

Options to which farmers do have some rights, eg high mortalities traced to the hatchery or poor weight gain due to the processor changing the feed – are generally ignored by the processor when and if the farmer claims their rights under the contract. In a recent case the processor took no action for months until a group of farmers (too many to terminate) finally registered a dispute under the contract – at which point they were paid immediately.

(e) how risk and reward are allocated between the contracting parties

As a general rule, a greater proportion of the industry risk is being passed to the farmer with each contract (or contract renewal), including but not limited to:

- requiring farmers to pay indemnities insurance under a broad range of circumstances that cover the processor,
- requiring farmers to hold licensing, rights, or insurance above their usual requirements. This includes full-replacement insurance policies covering property that is held on the grower's premises but owned by the contract-issuing party or recently a requirement to hold water rights above that required for the farm,
- requiring farmers to provide evidence of processors' contractors complying with a wide range of processor-established codes of conduct,
- clauses restricting farmers from assigning their contract without similar requirements placed on the contract-issuing party,
- absence of clauses that offer effective or affordable dispute resolution processes,
- absence of clauses that enable growers, as unsecured creditors, to recoup losses if the processor becomes insolvent,
- requiring farmers to take the biosecurity risk for the farm, when it is the processor staff and their contractors who are the most significant biosecurity risk,
- risk associated with cost of dead bird disposal even in where any deaths have been demonstrably the result of the processor actions, and in more recent times processors also seeking to recoup the value of the birds at death from the farmer,
- significant financial risk associated with recouping the cost of new development on farm in the fact of short term or no-effective-term contracts.

(f) the transparency and certainty over the terms of supply

There is little transparency of the terms of supply, because contracts may be terminated for all manner of reasons by the processor; and overall contract terms, if applied, are still too short to realise a return on any new investment.

In addition, dispute handling mechanisms in the contracts are weak, and many aspects of both the contract and the operation of the contract are not transparent, including net price, placement rates or densities.

On the brighter side, there is a reasonable chance that if you have a contract you will be supplied with birds due to the current relative shortage of shedding.

(g) renewal practices (for example, notice periods and timing).

Contract renewals are probably the greatest cause of issues in the industry, resulting in many farmers being effectively forced to grow without a contract (but on the approximate provisions of their previous contract). Notice periods are generally observed as per contract; most of these are 6 months and "on paper" this should be adequate. However, the current periods around negotiation are divisive and brutal for farmers, with processors offering unconscionable clauses, "trick" clauses, which appear to provide a benefit but are contradicted in other places; delays and "picking off" farmers who are becoming desperate with "sweetheart" deals.

Other practices include delaying negotiations, re-instituting clauses in later drafts that had been rejected in previous drafts, refusing to negotiate over CPI rises, linking any improvements in the contract to increased capital spend, changing policy documents (which are not part of the contract but referred to within the contract) to offset some “gains” in the proposed new contract, developing verbal agreement and then going to the rest of the farmer group with a previous draft, and other behaviours.

7.21. How these contracting dynamics and terms vary between the different buyers and sellers you contract with. Where relevant, please explain how your costs vary between different buyers and sellers (for example, transport or distribution costs).

No comment

7.22. For suppliers who have direct contractual relationships with retailers, or wholesalers representing retailers:

(a) The nature and types of rebate arrangements, either reflected in the written terms of contracts or otherwise negotiated, and the process for negotiating and agreeing on rebates

(b) any provision, whether written in a contract or negotiated outside of the written contract, in relation to self-placement or promotional activity (including in-store activity, product advertising and retail price discounts, whether ad hoc or regular discounting cycles).

No comment, except to note that poultry meat farmers do not have the ability to make arrangements with wholesalers or supermarkets as they do not own the birds.

7.23. How these contracting practices have changed over the past 5 to 10 years (please indicate the time period your response covers).

Over a 25 year period it is true to note that:

- Contracts between processors and farmers have become considerably more complex with vague or undefined clauses, external policy references as above, and cross-referrals that make understanding by “the reasonable person” difficult or impossible.
- Processor behaviour has worsened along a parallel dynamic as that seen in the USA.
- Processors, without collusion, seem to develop parallel approaches to contracting practices.
- Farm incomes have steadily worsened as a % ROI and dramatically so if land value is included.
- Farmer age demographics have significantly increased as the “next generation” has declined to enter into these types of contracts.
- The entry of corporate farming companies has apparently only marginally mitigated these declines. Even new building by corporates has significantly slowed.
- Farmers have had their profitability eroded, then their income, and now their depreciation, as processors claw in these year by year.
- Processor requirements in relation to shedding, biosecurity practices, perceived animal welfare practices, farm layout and facilities, etc have increased over time without the ability to achieve returns on these elements.
- Actual contract periods (that is, stated contract periods less the termination clauses in other sections) are effectively zero.
- Negotiations on contracts are significantly more protracted, embittered and thuggish, including vilification and sudden termination of farmer representatives.
- A significant % of current poultry meat farmers are farming without a current, written contract at all.
- Processor risk is significantly and increasingly transferred to farmers with each passing year.

- Individual threats and thuggery are more blatant, more obvious and more contractually terminal. All of these issues seem to be accelerating over time.

7.24. Trading arrangements, practices and dynamics, including:

(a) the supply process, including the nature and extent of negotiations

(b) the general terms and formats of your trading arrangements (for example, how quality thresholds or other requirements are assessed, and how and when outcomes are communicated)

(c) whether any agency or trader relationships are involved

(d) pricing terms and practices including the methodology for determining prices, allowances, charges or deductions, the timing and communication of actual prices to be received, and the timing of payments

(e) how easy it is to compare prices and conditions offered by different participants (sellers and buyers)

(f) how risk and reward is allocated between parties to the arrangements

(g) the transparency and certainty over the terms of supply, including final volumes and prices.

No further detailed comment, noting that

- Most of these elements are covered in the above.
- It is impossible for farmers to compare prices offered by different processors and even if they could, they could not contract to other processors for geographic reasons, (and if there are two processors in the area) or with the permission of their processor.
- Increasingly greater risk and less reward is available to farmers with each contract.

7.25. How these dynamics and practices vary between the different buyers and sellers you deal with. Where relevant, please explain how your costs vary between different buyers and sellers (for example, transport or distribution costs).

No comment.

7.26. Whether formalised supply contracts or some other form of supply arrangement would be preferable and why.

Poultry meat farmers have been begging for a mandatory Code of Conduct since the Horticulture Code was enacted in 2017. The Perishable Agricultural Goods review suggested but did not specify the nature of additional regulatory oversight of the sector.

A mandatory Code of Conduct would not fix all the issues between farmers and processors. Other mandatory Codes have demonstrated that vilification may not stop, or contract be universally acceptable. However, short of legislation as existed 25 years ago, this would be the next best acceptable option for poultry meat farmers by requiring supply contracts, having enforceable rules, and setting standards for good faith negotiations. These Codes of Practice include published written formalised supply contracts according to good faith rules.

It is fair to say that due to workload ACCC may not been as active in enforcing the mandatory Codes in other industries; but it is equally fair to note that the ACCC prosecution of Lactalis in [2022](#) and significant fine in [2023](#) sent a clear message to other dairy processors. That this prosecution included issues of farmer vilification was even more important. The associated media coverage is just as significant a punishment as the Court ruling itself, as it discourages new farm entry to that processor.

7.27. How these trading arrangements have changed over the past 5 to 10 years (please indicate the time period your response covers).

No comment

7.28. How any buyer power is or might be exercised and the consequences (for example, lower prices received, transfer of risk or costs, decreased incentive for investment and innovation along the grocery supply chain).

No detailed comment, except to note that there is no question that in spite of relatively equal market power between the processors and supermarkets, the perishability of the product and finely tuned supply chain means that processors can, and are, bludgeoned by supermarkets.

For example, processors may be made to provide funds for promotions, or lose shelf space for secondary processed product, or support discounting with funds.

A single day that a supermarket refuses to take fresh poultry meat from a processor might be a day where shelves are bare for a consumer (and since COVID-19 consumers have been trained to accept this), but create an instant supply chain backlog for a highly biologically labile food stuff for a processor.

So the processor effectively has no choice but to become a proxy for the supermarkets in their thuggish dealings with farmers, if they are to continue to return their current [elegant returns to shareholders](#).

7.29. Any evidence or examples of buyer power (please specify which market participants and grocery products or product categories your answers relate to).

Note above.

7.30. The extent to which larger supermarkets and wholesalers are able to acquire grocery products from suppliers for lower prices or on better terms than smaller grocery retailers and wholesalers, and how this has changed over the past 5 to 10 years (please indicate the time period and products or product categories your response covers).

No comment.

7.31. Any evidence or examples of buyer power being exercised in a manner which impedes or may impede the efficient supply of grocery products and how this has changed over the past 5 to 10 years. In particular, whether (and, if so, how) lower prices or unfavourable terms have:

(a) reduced the viability of suppliers' businesses

(b) prevented suppliers from undertaking investment necessary to support their business (for example, capital expenditure to support the improvement or expansion of the business)

(c) resulted in exit by suppliers or other reductions in the extent or quality of supplier output.

No comment in addition to those presented above throughout the document.

7.32. The extent and impact of any countervailing negotiating power, including:

- (a) at the retail level, the value consumers place on your specific brand and how they might react if their desired brand were not available**
- (b) the effectiveness of collective bargaining arrangements in negotiating trading arrangements with major processors, wholesalers or retailers**
- (c) how this has changed over the past 5 to 10 years (please indicate the time period your response covers).**

No comment in addition to those presented above throughout the document.

7.33. How cost changes along grocery supply chains are reflected in retail prices, and how this has changed over the past 5 to 10 years (please indicate the time period your response covers).

Note example 2 on page 7 in relation to cost-plus pricing. Clearly this has been happening for some years, however, it is noteworthy that Aldi prices are consistently similar (but less than) Coles and Woolworths by approximately the same margin in spite of not offering high cost services such as Click and Collect and Home Delivery. This hints that cost-plus pricing continues, but this is impossible to determine with any accuracy as there is no transparency of pricing in the supply chain between when the chicken/turkey leaves the farm, and when it is displayed on shelf.

This does not appear to have changed within the last 10 years, but is becoming more noticeable, which may be due to a compounding effect.

7.34. The key factors influencing profitability and margins at each level of the supply chain and how these have changed over the past 5 to 10 years (please indicate the time period your response covers).

See all of the commentary above.

7.35. Your ability to respond to shocks or changes in the operating environment.

There is little to no ability for farmers and at least some of the smaller processors to adequately respond to shocks in the operating environment – and at least one shock is “just around the corner”.

As farm financial returns have eroded over the last 25 years, and debt has become larger, any significant shock is likely to result in widespread bankruptcy and significant supply interruption.

It is noteworthy that COVID-19, which it was undoubtedly an economic shock, had markedly less effect on the poultry meat sector than initially thought. As consumers stayed home, they cooked poultry meat and accelerated the demand curve we have today. Similarly, the economic slowdown and cost of living crisis post-COVID-19 has probably also benefited poultry meat production, as even with significant price rises poultry meat remains the least cost meat to consumers, and with less dining out poultry meat is being bought to cook at home.

The previous genuine shocks have been in relation to the incursion of Emergency (notifiable) disease in NSW and Vic, the most significant of which was the NSW Newcastle Disease outbreak of 1999-2000. This shock resulted in at least 1 farmer suicide, a number of farm sales or closures, a recovery lasting more than a decade and for which the industry is still paying today, but it is worth noting that:

- A relatively small % of total Australian production was affected, but there were temporary shortages of poultry meat on supermarket shelves due to the finely tuned supply chain,
- Processors and farmers worked together to get back into production quickly,
- Debt levels in total and as a ratio were relatively lower, (particularly in the parts of NSW affected by the disease as they were largely older and fully-depreciated farms),
- This occurred during the years of state-based countervailing power legislation, where farm returns were generally reasonable (at “normal profit” level), and returns helped cover the cost of farm improvements and depreciation.

A known shock on the horizon is High Pathogenicity Avian Influenza, an emergency virus which is now on every continent (including Antarctica) except Australia. With relatively little species specificity (known to infect more than 50 species of mammals including man, and more than 150 species of birds) and high transmissibility; incursion of this disease would provide at least as large a shock to the broader Australian economy as any hypothetical Foot and Mouth Disease incursion.

Large numbers of farms would be depopulated including poultry meat and egg farms and likely loss of donor flocks; as well as significant potential effects on native wildlife, some risk of infection of humans; and known ongoing carriage of the disease by ducks making poultry reinfection likely over an extended period as has been the case in the [USA](#), [UK](#) and EU. This means that there may be successive waves of depopulation in both commercial and donor flocks over a number of years, making return to full production in the short term almost impossible.

Forecast outcomes may include, but not be limited to:

- Widespread farm bankruptcy, particularly larger and more modern farms with high productivity and high debt levels because their margins have become too small and contract periods too short to cope with this lost production or “ride out” any successive shocks,
- Farm suicides,
- Ongoing supply shortages for consumers,
- Delayed return to production and intermittent supply issues due to waves of depopulation including donor flocks,
- Loss of genetic material due to loss of donor flocks,
- No change in the bad faith relationships between processors and farmers, resulting in a less cohesive return to production,
- Likely closure of the remaining smaller processors as the duopolistic Inghams and Baiada are forced to cease sales of genetics to the smaller processors – further increasing their market concentration.

In short, there is no buffer left at poultry meat farm level to absorb any kind of significant economic shock, and very little at the level of the remaining small processors.

7.36. Any impediments to undertaking investment necessary to support your business, for example capital expenditure to support the improvement or expansion of your business.

Farmers are willing to continue to invest in their farms, and corporates are willing to continue to build and upgrade their businesses. Based on Australian population growth alone, (and continuing to ignore the ongoing requests from international traders to establish export markets into SE Asia), it is likely that up to 700 new sheds will need to be built to cope with this domestic demand, which is assumed to continue at current rates.

However, the processors' almost universally poor behaviour to farmers over a very long period has resulted in farmers being unwilling &/or unable to continue to invest at any level to cope with this demand. This problem will be greatly exacerbated if any of the shocks above eventuate.

This behaviour included, but is not limited to:

- Failing to provide growing contracts of long enough periods to effectively depreciate capital investment,
- Failing to provide growing contracts with high enough returns either to depreciate capital investment or to pay for upgrades,
- Failing to provide growing contracts with returns that are indexed for the true increases in variable costs; or depreciation or capital return on investment,
- Providing overly complex contracts that “give with one hand and take with the other”,
- Including unconscionable and poorly defined “instant termination” clauses, such as failure to follow unspecified or changing policy manuals,
- Vilifying and even terminating the contracts of those who represent other farmers in negotiations, including allegedly for “poor performance” in a corrupted pool system
- Continuing to maintain daily business relationships based on “never miss an opportunity to get the bastards” attacks on farmers’ productivity, throughput and performance;
- Exercising a complete power of veto over farm sales when it suits their purpose, based on their “belief” that the buyer might not become a “good” farmer.
- Ensuring opacity in farmers’ day to day performance indicators by not allowing farmers access to their own records, including original weighbridge dockets, or actual placement numbers; for example;
- Exercising bad faith in contract renewal negotiations,

In addition to this most significant barrier to business expansion, it is also worth noting that intensive industries are subject to ongoing and unwarranted attacks by activists who purport to support animal welfare but more usually act against it. Sensational and often posed activist footage is lapped up by media outlets desperate for scandal – real or imagined – to drive ratings.

This has led to a fear response (rather than an educated one) in Councils and MP’s, resulting in failed planning permission, extended duration to achieve approvals and a plethora of additional requirements prior to planning permission being granted, only some of which are warranted.

It is also worth noting that the “get big or get out” imperative seen in other agricultural industries is also played out for poultry meat farmers. This means that any expansion requires consideration of economy of scale – which in turn dramatically increases regulatory and other requirements to achieve planning permission from Departments with an attitude of “how can we stop anything happening” rather than “how can we help you do business”. However, this “get big or get out” imperative is different in scale to other agricultural industries, with a single fully modern and equipped shed now costing in excess of \$2M (and a large farm would be in excess of \$25M).

Other impediments to business expansion for farmers include distance to the processing plant, and increasingly jumpy financiers (usually banks). Financiers too have watched farm returns get stolen by supermarket-proxy processors and are increasingly fussy about lending.

7.37. Any other impediments to the efficient operation of your business.

This submission has outlined in detail the impediments to the efficient operation of poultry meat farming businesses, which includes but is not limited to:

- The “cost of living crisis” is also a “cost of business crisis” in relation to gas, electricity energy, labour, insurance etc,
- Processors’ contracts and behaviour around those contracts,
- Councils, EPA’s and other barrier bureaucracies,
- Animal activism and the current weak enforcement regimes in this space,
- Powerful players further down the supply chain (ie supermarkets and processors) assiduously pushing both reduction in farm profitability and increased costs onto Poultry meat farmers, and playing “games” while they do it, and
- Failure of the government to commit to a mandatory Code of Conduct that would alleviate some of these pressures as it has in other industries.

7.38. Any factors that have improved the efficiency of your business operations.

It is fair to note that increasing farm size and improved genetics have increased the efficiency of poultry meat farming over time, as has improved farming methods, better farm technologies and equipment, and better bird nutrition.

7.39. How the extent, and types, of impediments to efficient supply or improvise to the efficacy of business operations have changed over the past 5 to 10 years (please indicate the time period your response covers).

All the responses above in relation to bother impediments and efficiencies are on continuous trajectories over the last 10 years

7.40. Conclusion:

It should be obvious by this stage that there are significant issues between duopolistic supermarket-proxy poultry meat processors and their contracted farmers that are having a direct bearing on the growth of the industry and returns to farmers.

Supermarkets have continued to exert significant power even though the duopolistic processor sector that is actually even more significantly concentrated than the supermarket sector. There is lack of price transparency, passing of risk to farmers, and consumer prices are being subsidised by “normal” profit being passed from farmer to consumer.

This is resulting in reduced rates of reinvestment in farm businesses, farm sales in excess of “normal” levels, and reduced R&M on remaining sheds and equipment with concomitant biosecurity and other risks. Contract negotiations are fraught to non-existent, and many farmers are operating without a contract at all.

Farmers are at breaking point or have already broken. They are reporting effects on mental, physical and financial health. They can no longer afford to invest, or rely on capital gain on their land to buffer their financial situation. The paperwork and administrative costs associated with the “next big consumer fashion” are also causing cost and grief, for which they are treated as slave labour. Employees are treated more favourably, but don’t have loans in excess of \$4.5M per farm.

Poultry meat farmers need:

- The Food and Grocery Code of Conduct to become mandatory to reduce pressure on processors
- A mandatory Code of Conduct to operate between poultry meat farmers and their processor, to put some enforceable rules around operating relationships between these two groups,

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- A high level of ACCC enforcement/audit of both Codes, both to send the message that these regulatory instruments are real and because it may be difficult for farmers to make reports to ACCC under a Mandatory Code in the first term due to fears of vilification or termination,
- Improved price transparency right along the poultry meat supply chain,
- The end of “cost plus” pricing and a closer focus on non-collusive but nonetheless identical pricing behaviours at both supermarket and processor level,
- Regular review of these Codes and active comparison with the situation prior to Code introduction, in particular with relation to industry-wide reinvestment and development of export markets.

The time is well overdue to make the Food and Grocery Code mandatory, and to institute a Code of Conduct between meat poultry processors and the growers that help make their profit.

Yours Faithfully

(by email)

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