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# ***AGRICULTURE, RESOURCES AND ENVIRONMENT COMMITTEE***

## **Members present:**

Mr IP Rickuss MP (Chair)  
Mr JN Costigan MP  
Mr SV Cox MP  
Mr S Knuth MP  
Ms MA Maddern MP  
Ms J Trad MP  
Mr MJ Trout MP

## **Staff present:**

Mr R Hansen (Research Director)  
Mr M Gorringe (Principal Research Officer)

## **PUBLIC BRIEFING—INQUIRY INTO THE CHICKEN MEAT INDUSTRY COMMITTEE AMENDMENT BILL 2014**

### **TRANSCRIPT OF PROCEEDINGS**

**WEDNESDAY, 5 MARCH 2014**

**Brisbane**

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Committee met at 11.11 am

**CHILCOTT, Mr Chris, Director of Animal Industries, Department of Agriculture, Fisheries**

**CUMMINS, Ms Melissa, Acting Director, Legislation and Regulatory Reform, Department of Agriculture, Fisheries and Forestry**

**DARLINGTON, Mr John, Principal Policy Officer, Animal Industries, Department of Agriculture, Fisheries and Forestry**

**PINEDA-DE LEON, Ms Yessenia, Policy Officer, Legislation and Regulatory Reform, Department of Agriculture, Fisheries and Forestry**

**CHAIR:** Welcome, ladies and gentlemen. I declare this meeting of the Agriculture, Resources and Environment Committee open. I would like to acknowledge the traditional owners of land on which this meeting is taking place. I am Ian Rickuss, the member for Lockyer. To my right are the member for South Brisbane, Jackie Trad; the member for Whitsunday, Jason Costigan; and the member for Maryborough, Anne Maddern.

Thank you very much, John, for coming in. You are the principal policy person from the department on this issue so would you like to make a brief opening statement, please?

**Mr Darlington:** I would like to thank the committee for this opportunity to provide a briefing on the Chicken Meat Industry Committee Amendment Bill 2014. We propose to firstly provide some background information regarding the chicken meat industry in Queensland followed by an explanation of the bill itself.

The Queensland chicken meat industry has three major processors: Inghams, Golden Cockerel and Baiada Poultry trading as Steggles. All the major processors have hatchery and meat chicken growing farms. Excluding the farming operations of the processors, there are about 78 contract meat chicken farm business entities operating 90 farms.

Legislation for the stabilisation of the chicken meat industry in Queensland commenced in 1976. The reason that stabilisation mechanisms were first legislated was to address market failure. The market failure arose through an imbalance of bargaining power between the processors and chicken meat contract growers, which resulted in a large number of commercial disputes between growers and processors.

The original legislation allowed the Chicken Meat Industry Committee to mediate in disputes and negotiate prices between processors and growers. Following a national competition policy review of the legislation in 1997-98, the functions of the committee relating to direct activity in the marketplace were removed from this legislation. These functions were replaced with the ones that are in the act now. To enable the Chicken Meat Industry Committee to facilitate collective negotiations for agreements an explicit authorisation to allow collective bargaining between growers and processors, which will potentially contravene part 4 of the Competition and Consumer Act 2010—Commonwealth, was included in the act. Under the competition principles agreement with the Commonwealth, any restrictions on competition must be reviewed every 10 years by a public benefit test and, under national competition policy, a legislated authorisation is regarded as a restriction on competition.

The last review of the act was in 2010-11. Under the competition principles agreement, if the legislation were to be retained the next review of the restrictions on competition is due in 2020. Given the history of the previous reviews and the requirements for future reviews of the legislation, the Queensland Chicken Growers Association decided to remove uncertainty from their collective negotiation agreements. They sought for current and future members, and in conjunction with the three major processors, an authorisation from the Australian Competition and Consumer Commission—the ACCC—for collective bargaining. With a move to collective bargaining under the Brisbane

ACCC, there will effectively be no change in the existing collective negotiation arrangements for growers and processors. Groups of growers supplying a particular processor will collectively negotiate with that processor. Also, any chicken meat grower can negotiate individually with a processor, as is the present situation. The act does not provide for any mandatory requirement for either processors or growers to collectively negotiate nor does the ACCC authorisation compel processors and growers to collectively negotiate.

The ACCC determination in January 2013 on the Queensland Chicken Growers Association application states that the Queensland Chicken Growers Association has approximately 58 grower members. Over the last five years, the industry has grown on average five per cent per annum. This growth occurred in a commercial environment where there are few commercial disputes. During the period between 2002-03 and 2012-13, the Chicken Meat Industry Committee annual reports state that no disputes relating to agreements or proposed agreements were dealt with by the committee.

The market concentration in the chicken meat industry now is similar to 1976, with a small number of large processors and a large number of contract meat chicken growers. However, the behaviour of participants in respect to commercial disputes has changed.

The department notes that the written submissions to the Agriculture, Resources and Environment Committee support the intention of the bill. In particular, the support of the Chicken Meat Industry Committee is noted. Industry participation on the Chicken Meat Industry Committee in practice aligns to the existing collective negotiating groups. The commitment of the existing negotiating groups is important in an operational sense to ensure continuing in the transition to non-statutory arrangements.

The written submissions also mention the need for transitional arrangements. The department understands that this comment may relate to the handling of dispute resolution processes leading up to the abolition of the bill and post the abolition of the bill. Under the act, the scope of the dispute resolution process is limited to agreements and proposed agreements. When a dispute is referred to the Chicken Meat Industry Committee, the committee must refer the dispute to mediation. If a dispute is about an amount payable under an agreement and it is not resolved by mediation, the chairman must refer the dispute to arbitration. The Chicken Meat Industry Committee has previously advised the department that the industry intends to insert standard dispute resolution clauses similar to dispute resolution provisions in the act in the future grower and processor contracts.

The department will assist the Chicken Meat Industry Committee where possible to meet the requirements to abolish itself. Also, the department has responsibilities under the financial and performance management standard, once the statutory Chicken Meat Industry Committee is abolished, in respect to compiling the final financial statements and report. Thank you.

**CHAIR:** I might just ask a question to start things off. Will this save the industry any money? Will it be only a small amount? Are there only volunteers on the committee and that sort of thing?

**Mr Darlington:** The costs associated with the change will be quite small. The Chicken Meat Industry Committee is currently totally funded by industry. So by moving from a statutory to a non-statutory environment will have little cost impact.

**CHAIR:** As there are only 78 growers in total—I think that is the number that I picked out from your figures—did the department contact most of the growers or did you just use the grower association groups to do that?

**Mr Darlington:** We have relied on the Chicken Meat Industry Committee and the Chicken Meat Growers Association to do that consultation.

**CHAIR:** Okay. Admittedly, the submissions we had were both quite positive. Fortunately, the world has moved on. In 40 years it appears that it has become a lot more savvy sort of thing, would you say, probably on both sides of the industry, because they both need each other, do they not?

**Mr Darlington:** The chicken meat industry is highly integrated with the processors owning the hatchery facilities. The processors own the birds and then contract growers to grow out the birds and then collect the birds and then process. So the grower in this sense is a contract grower rather than an individual farmer. The contract grower owns the land and owns the shedding, but all of the inputs, including feed and pick-up dates, are supplied and dictated by the processor who is the owner of the bird.

**CHAIR:** Yes. All right. Any questions?

**Mr COSTIGAN:** Has that been the case for quite some time in the industry? I am just picking up on what Mr Chairman has just asked you.

**Mr Darlington:** Since probably the early 1970s, when there was exceptional growth in the industry—it would be the late 1960s and 1970s. Effectively, the market driver was the introduction of Kentucky Fried Chicken into Australia and the demand for portioned chicken meat increased greatly. At that time there was a lot of consolidation, particularly of the family companies, for example like Inghams and Baiada Poultry, who trade as Steggles now. Those family businesses effectively took their chicken meat operations and became processors and have supplied particular niche markets, for example, KFC and as we see today in terms of Woolworths and Coles. The industry is extremely concentrated in a market sense and I suppose it is different from most other agricultural industries in that sense.

**Mrs MADDERN:** There are obviously transitional arrangements here and I note that there are assets and liabilities to be transferred to another organisation. I am curious about how much or how big a quantum there is on those assets and liabilities and whether there is a type of organisation or some kind of place where you are actually going to transfer those over. When you transfer from, say, a sports club, you transfer it to another sports club if the club is closing down but I cannot see where you would actually be wanting to transfer these assets.

**Mr Darlington:** In terms of the quantum, in the last annual report of the Chicken Meat Industry Committee the total assets were in the order of \$76,000 in total. I might ask Yessenia to speak to the question about the type of body or entity.

**Ms Pineda-De Leon:** Under the bill at the moment the committee must decide to transfer its assets and liabilities and it must decide to abolish itself after that. It can only transfer its assets and liabilities to an eligible entity, and an eligible entity is an entity that meets the criteria that is in the bill. One of the key aspects which addresses your question I think from the bill is that that entity's constitutions or rules must have within them that the entity must be promoting the interests of the chicken meat industry in Queensland. So that is one of the key criteria under the bill.

**Mr Darlington:** Just to add to that in terms of existing potential bodies, the Queensland Chicken Meat Council is a body which would meet that criteria, as does the Queensland Chicken Growers Association itself. So in terms of the decision for the Chicken Meat Industry Committee itself, there are existing bodies which fill those criteria in the bill.

**Ms TRAD:** Good morning. Taking on board your comments regarding the integration of processors and growers, do you have any data or statistics around how many in the growing industry are integrated into the processing side of the industry? I ask that question to quantify how many growers are part of collective arrangements and how many are part of individual arrangements and whether the integration has any bearing on that.

**Mr Darlington:** We do not have any exact numbers in terms of those future growers who will be involved in collective arrangements under the ACCC arrangements. However, broadly, excluding the farming operations of the four large corporate and family companies, there are 78 farm business entities operating 90 farms. The ACCC correspondence in January 2013 noted that the Queensland Chicken Growers Association had about 58 members, so it is estimated that there are about 20 contract chicken meat growers who may not be covered by the ACCC-Queensland Chicken Growers authorisation. However, we do not know at this point in time if there are any growers who are not participating in the collective at the moment. Including the corporate and large family companies, chicken meat is farmed on about 120 sites in Queensland. Those four large corporates—Inghams, Baiada Poultry and Golden Cockerel, which is owned by two large family companies, Darwalla Milling Co. and Woodlands, which owns Golden Cockerel—have significant farming operations themselves.

**CHAIR:** In that regard, how many out of those four larger ones are not fully integrated where they own farms, growers, the lot? Are they all contract growers to Inghams?

**Mr Darlington:** No. Inghams are fully integrated and also those three large companies are fully integrated in terms of hatcheries and growing out as well.

**Mr COX:** I might have missed it because I came in late, but in relation to disputes and what has happened in the past or what is happening now, can you give the committee a bit of an idea how many disputes there are a year or could you give us an example of what some disputes may have been in the past that needed addressing and I guess could need to be addressed in the future? Could you give us a bit of a picture of what we are sort of talking about? If you do not have the figures and the numbers that is okay, but even just a general idea?

**Mr Darlington:** In the period 2002-03 to 2012-13 the Chicken Meat Industry Committee annual report stated that there were no disputes with respect to agreements and proposed agreements which were dealt with by the committee. The disputes resolution mechanisms in the act at the moment only relate to agreements and proposed agreements.

**Mrs MADDERN:** Just out of curiosity, what is the market demand like for chicken meat? Is there unmet demand, is there pressure on demand or are we running into an oversupply situation? Can you tell me where that sits at this point in time please?

**Mr Darlington:** Broadly, the growth in demand for chicken meat has increased about five per cent per annum annually and has done for the last five years. Given that chicken meat is now the most preferred meat protein in Australia, more so than red meat, the demand for chicken meat is expected to continue and we believe there is probably the need for further growth in the chicken meat industry to meet consumer demand for the product.

**CHAIR:** Do you have any idea of what sort of percentage the Queensland industry is of the Australian industry? I would imagine that New South Wales is a big part of the industry.

**Mr Darlington:** I do not have that number offhand, Mr Chairman. We can give that to you.

**CHAIR:** You can take that on notice, if you do not mind.

**Mr Darlington:** Yes.

**CHAIR:** Just for interest.

**Mr COSTIGAN:** You mentioned the 120 sites. Could you pass comment, Mr Darlington, on the geographic spread of those sites across the state?

**Mr Darlington:** Most of the chicken meat farming occurs in reasonably close proximity to the major processors, and that is in relation essentially to a bird welfare issue with respect to the distance that birds can be travelled or transported to slaughter. Given that the majority of the processors are in and around Brisbane and South-East Queensland, that is where most of the growing area is. There is also a significant growing area on the Atherton Tablelands around Mareeba where Baiada Poultry has a significant abattoir facility. There is also a number of smaller slaughterhouses and abattoirs across the state, but in terms of the concentration of the industry it is essentially in South-East Queensland.

**CHAIR:** Is this going to affect the smaller poultry operations that are the organic type industry or those sorts of industries? Is this legislation going to have any effect on them at all?

**Mr Darlington:** Essentially those operators have been operating outside of the act as it is in the sense that they have their own arrangements, and given the small numbers I understand that they have not been part of the collective to date.

**CHAIR:** Do any of the other big operators offer the different sorts of ranges of products such as organics? Do Inghams or Golden Cockerel offer an organic chicken or that sort of thing, or is it mostly left to the smaller operators?

**Mr Darlington:** The larger integrators I think probably have a place in the marketplace as well. I suppose an example is the growth in free-range production in eggs and there is also a growing market in terms of the free-range chicken meat itself.

**CHAIR:** John, would you like to make a brief summary at all or are you more than happy with what has happened?

**Mr Darlington:** Mr Chairman, unless the committee wants a briefing on the detail of the bill, I think the department has finished its briefing.

**CHAIR:** Thank you very much for that. I thank the departmental officers for your assistance today. If you have agreed to provide further information from today, could you please have that to the secretariat by the close of business on Tuesday. There was one question on notice. I declare the briefing on the Chicken Meat Industry Committee Amendment Bill 2014 closed. Thank you very much.

**Mr Darlington:** Thanks, Mr Chairman.

**Committee adjourned at 11.33 am**