

**WESTERN AUSTRALIAN
BROILER GROWER ASSOCIATION**

9 April 2010

Mr Lyndon Rowe
Chairman
Economic Regulation Authority
Level 6, Governor Stirling Tower
197 St Georges Terrace
PERTH WA 6000

Dear Lyndon

RE: SUBMISSION ON THE INQUIRY INTO THE CHICKEN MEAT INDUSTRY ACT 1977

We thank you for the opportunity to have input into the above inquiry. Please find
enclose 1 hard copy of our submission.

If you have any queries, please do not hesitate to contact me.

Regards

LEN BRAJKOVICH OAM JP
President
Western Australian Broiler Growers Association

WESTERN AUSTRALIAN BROILER GROWER ASSOCIATION (WABGA)

ECONOMIC REGULATION
AUTHORITY - WESTERN
AUSTRALIAN

**SUBMISSION ON THE INQUIRY INTO THE
CHICKEN MEAT INDUSTRY ACT 1977**

9 April 2010

Prepared By:
L. S. Brajkovich
On behalf of the
Western Australian Broiler
Grower Association

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Executive Summary

There is reluctance on the part of the Western Australian Broiler Growers Association (WABGA) to impose self censorship on behalf of our members, for fear of being offside with the Economic Review Committee (ERC).

Faith in the Committees ability to demonstrate a sound understanding of the Industry and practical application of the Chicken Meat Industry Act (CMIA) has been diminished due to the anomalies found within the Issues Paper Document. We have attempted to point out the most salient misinformation and correct the disparities.

We anticipate that upon reading this submission, you would be more conversant with our industry thus promoting a clearer understanding.

We trust that this will be reflected in the draft report to be published in May 2010.

Key Achievements in Western Australian Broiler Industry

- Western Australia continues to set the trend in the Model Farm size, which is approximately double the National average.
- The growing fee expressed as a price per kilo continues to remain constant
- In the area of Bio-Security, we are second to none, notably we are the only State that will be exempt from the compulsory vaccination for Newcastle Disease for Meat birds.
- We are the only State that can claim 100% of all our floors are sealed.
- We are 100% compliant with National Pollutant Inventory (NPI).
- The only State that has a waste management strategy and a procedure for the composting of all mortalities.
- The only State that has seen fit to segregate the two major companies growing operations to north and south, thus ensuring better Bio-security.
- The only State to embark on a Poultry Litter Fired Power Station project of some 10 megawatts. This was in response to the Stable Fly Committees request and demand that we alleviate the worsening Stable Fly population within our State. This entailed a commitment of \$1 million of growers' capital to ensure that the project proceeded. This I believe would not have occurred, nor have been possible, in a deregulated environment including all other initiatives that we, (WABGA) embark upon. Unfortunately this project fell over, mainly due to the failure of Government of the day to move a Scheme Amendment after we had received EPA approval for the project. This problem will continue to haunt us in Western Australia, as is the case across most States in Australia and indeed Worldwide.
- We have entered into an MOU with all Government agencies as part of Stockguard, a Government initiated process to ensure that WA has the most developed plans possible to deal with an outbreak of exotic poultry disease should this occur.
- Five WABGA members attended a two day course at the Department of Agriculture, qualifying as Industry Liaison Officers (Conspicuous by their absence were the Opted Out Producers).

- The WABGA has entered into an MOU with the EMRC in relation to the use of Recycled Wood waste, such as pallets. This initiative by the growers supported by all of our Processors fills a void by the shortage of Jarrah sawdust after the closure of several timber mills. This is a first in Australia.
- The Act has enabled maximum utilization of **all** specialized facilities for well over 34 years.
- The Act has promoted industrial harmony
- The Act has encouraged the flow of market and management information amongst growers and processors.
- And finally and most importantly, the administration of the Act and Regulations is effectively cost neutral to the State and consumer.

It is clear that the above initiatives, which are of significant benefit to the industry and consumer, would not have occurred if it were left to the individual grower if he or she had to negotiate a growing contract and growing fee individually in a deregulated environment.

Conversely, there would be the temptation on the growers' part to avoid these issues for fear of adding to their costs when compared to the other competing growers, this is already evidenced by the non participation of the opted-out producers.

Methodology

All direct references to the Issues Paper appear as Blue text within this document.

Attached to this submission are individual submissions from various Growers that echo this ethos and support the recommendations of this document.

Issues for this Inquiry

The WABGA looks forward, after the ERC has reviewed all submissions, to the Committees findings on the following questions as set out in the Issues Paper.

As the ERC has identified 10 issues as their mandate for the review, we have taken the liberty of assisting to guide their enquiry into these areas and take great interest in their anticipated response to their expert investigation of relevant comparative data as it translates into our industries current function under the Act.

Within the total submission the WABGA has attempted to answer and highlight the 10 issues identified by the ERC. Obviously we believe there will need to be further investigated by the ERC after taking on board all of the submissions from other parties, other than the WAGBA.

Accordingly, the Growers in Western Australia look forward to reading the comparative analysis of the factors that have contributed to the structure of our Eastern States colleagues, who operate in de-regulated markets as distinct from WA. It most certainly would want to be far more positive and cost effective than what we have identified that is prevailing in each state.

The key indicators of identifiable contributing factors at a National level as compared to our State will make interesting reading and obviously the industry will be guided by the findings of the ERC in relation to this issue.

You ask....“Is the Act necessary for the implementation of particular regulations or could these issues be addressed through other forms of regulation?”

The Act makes little reference to the majority of regulations tabled in appendix B.

Rather the Act and Regulations deal directly with specific Industry breaches in the areas of Environment, Health, Animal Welfare and the land transport of Poultry. This is clear in the Growers obligations in his contract with his processor. In these key areas, it is mandatory that they are adhered to. Failure in any of these areas inevitably could lead to termination of the contract via the CMIC.

Legislation relevant to Chicken Meat Production in WA is admirably handled by the regulatory agency under which the statute falls. Like any business, industry or individuals we all have an obligation to abide by these statutes.

The ERC poses the question “are there any market failures in the production of chicken meat in Western Australia”.

The first aspect that comes to mind in relation as to whether there are market failures in the Chicken Meat Production Industry in WA is to stand back and face the reality of the following facts :

- The per capita consumption of chicken Meat in WA is similar to all other states across Australia.
- Australia’s total production in merger compared to Brazil, USA or China.
- Australia as a total single producer would slot into the USA at about number 16.
- Opportunity for economy of scale within Australia can only occur at the expense of other states as there is little external export taking place within Australia.
- South Australia, with substantial Government Assistance, now supplies a
- Considerable amount of processed value added chicken meat not only into WA but other states as does Baiada. .
- Inevitably the new Ingham plant in Victoria will certainly impact upon NSW as does Queensland.

“Has regulation of the chicken meat industry produced any unintended consequences?”

Yes, one needs only to look at the stability and achievements of WA to conclude that the lynch pin of this success is our Act and Regulations.

“Is regulation, or some other intervention, needed to address any market failures? “

One needs to pose the question to the ERC, what market failures are you referring to?

Basically the same two major players move chicken meat products around the State’s such that one would argue that it is not so much that they are competing with the local market but rather utilising their vast capital in the processing plants as efficiently as they see fit, and supplementing their own operations within each State.

Chicken Meat Industry Legislation

It is hard to imagine that the Australian Agricultural Council in 26 July 1982 at its 115th meeting agreed that State Legislation pertaining to the Chicken Meat Industry be retained and, where necessary, amended so that:

- (i) Committees established under chicken meat industry legislation would have effective decision-making powers and that decisions of these Committees would be legally binding.
- (ii) Common contracts would be used within each State.
- (iii) Contracts would be for a finite period, renewable for a minimum of two years and would have a minimum period of six months notice of termination.
- (iv) There would be legislative provision for an appeal to Committee against unilateral termination of contracts.
- (v) All existing growing facilities would be registered.
- (vi) The Committee would be empowered to approve new or additional unregistered shedding, and that it would be an offence to grow birds in other than approved premises.
- (vii) Provision for the transfer of growers between processors would be a function of the Committee.

Decisions of Australian Agricultural Council are always subject to consideration by the respective Government represented at the Council.

Implementation of any necessary amendments in accordance with this Council resolution will therefore be a matter for decision of State Governments and this question has yet to be considered by the Western Australian Government.

History

Not surprisingly, Governments around Australia virtually did exactly that. Western Australia's Act and Regulations admittedly, were amended several times.

Background and Purpose of the Act

Legislation directly concerned with the Western Australian chicken meat industry was first introduced in 1975 as a result of continuing unrest in the industry.

The main issue of contention centred around the price paid to contract growers by processors, for broiler chickens but growers were also concerned with such matters as their long term security in the industry as well as the opportunity to share in the future expansion.

THIS IS STILL THE MAIN POINT OF CONTENTION AS ALLUDED TO IN ALL OF THE GROWERS SUBMISSIONS. Refer to **Attachment 1 - Individual Growers Submissions.**

Initially an attempt was made to resolve these problems through the formation of a Chicken Meat Advisory Committee. This committee consisted of four representatives of processors and four representatives of broiler growers under the independent chairmanship of the Director of Agriculture.

After several meetings, the committee failed to agree on a basis for determining the price to be paid by processors to contracted growers for the growing of chickens so the government introduced relevant legislation.

The Chicken Meat Industry Committee Act (1975) aimed to create stability in the industry without altering industry structure.

The Act provided for written agreements or contracts between growers and processors and the contracts required the approval of a Committee established under the Act.

During the two years in which the Act was in operation, it became obvious that the Committee was unable to achieve the objectives envisaged by the legislation. Disputes between the grower and processor factions of the Committee required arbitration and a sequel to the arbitrator's decisions was the issue of writs in February 1977, which restrained the Committee from implementing the arbitration awards.

These experiences highlighted the inability of the industry to reach negotiated agreement and deficiencies in the legislation.

Accordingly stronger legislation to replace the Chicken Meat Industry Committee Act was drafted. The Chicken Meat Industry Act (1977) was assented to on November 23, 1977 and proclaimed in July 1978.

This new Act provided a degree of stability to the industry but the structure of the Committee and the need to reach consensus made its operation difficult.

While the industry stabilised for a period, difficult market conditions and a surplus of growing area during 1980-82 caused relationships between growers and processors to deteriorate and culminated in termination of contract notices being issued to a number of growers.

A decision was made to strengthen the Act further by altering the structure of the Committee; providing for issues to be decided by a majority of votes; removing the provision for outside arbitration; limiting appeals against Committee decisions to the Supreme Court and providing for the registration and approval of chicken growing facilities.

The Chicken Meat Industry Amendment Act was assented to on November 18, 1982 and this current legislation resulted in a dramatic decrease in disputes between processors and growers and improved industry stability.

The Act was reviewed in 1989 and its operation extended unaltered to December 1996. As part of Acts Amendment and Repeal (Competition policy) Bill 2000 a review of the Act took place with minor amendments. Such as allowing growers to opt out of the Act and Regulations and a major amendment to the fact that:

“A person who is aggrieved by a determination made under subsection (1) may apply to the State Administrative Tribunal for a review of that determination.

Where no application is made under subsection (2) within the time prescribed for making the application or an application is made but is discontinued the determination made by the Committee is final and shall be binding on the parties.

A party may enforce a determination that is binding on the parties under subsection (3) by lodging a copy of it certified by a member, and an affidavit stating to what extent it has not been complied with, with a court of competent jurisdiction.

When lodged, the determination is to be taken to be a judgement of the court and may be enforced accordingly.”

Further, provided that the agreements were in or to the effect of the prescribed form. Refer to **Attachment 2 - Prescribed Form of Agreement Letter**.

Purpose of the Act

The acts purpose is to improve stability in the chicken meat industry.

Scope of Legislation

The provisions of the Act are limited to the commercial growing of meat chickens. It does not extend to the supply of feed or day old chickens nor processing or marketing of the product.

Provisions

The Act requires that:

- All broiler chickens grown in batches of greater than one thousand by a grower for a processor are grown in accordance with a written agreement which provides for the payment of a average price, security for the grower, provision for growers to participate in expansion and protection for the grower in the event of contraction of the processor’s output;
- All broiler chickens are grown in ‘approved premises’, and
- New processing facilities require the approval of the Minister for Agriculture. (Now deleted in the National Competition Policy Review (1997))

It establishes a Committee of seven members – 3 independent persons, which includes the chairperson, two persons representative of processors and two persons representative of growers.

The major functions of the Committee are:

- To determine the average price paid by processors to growers for broiler chicken;
- To set criteria to determine whether a grower is an ‘efficient grower’;
- To approve growing premises and maintain records of ownership, location and effective capacity of premises on which meat chickens are grown;
- To determine disputes arising in the chicken meat industry; and
- To make recommendations with respect to regulations under the Act.

The government supplies a secretary and inspectors under the Act. A quorum for a meeting of the Committee is 5 members and any question arising is determined by a majority of votes. The act provides for appeals to the Minister on the approval of growing premises and appeals against other decisions of the State Administrative Tribunal.

All of the members sitting fees are met by the industry.

The legislation allows regulations to be made to:

- Prescribe the form of agreement to be signed by processors and growers;
- Prescribe the manner in which the average price paid by processors to growers for broiler chicken shall be computed;
- Prescribe the manner in which growers will participate in expansion;
- Prescribe the powers of the Committee; and
- Require the keeping of records, the furnishing of statements and other matters necessary for the operation of the Act and Committee.

Asset Value

The value of the principle assets in primary poultry production, estimated as a value of the total investment, are as indicated in Figure 1 below.

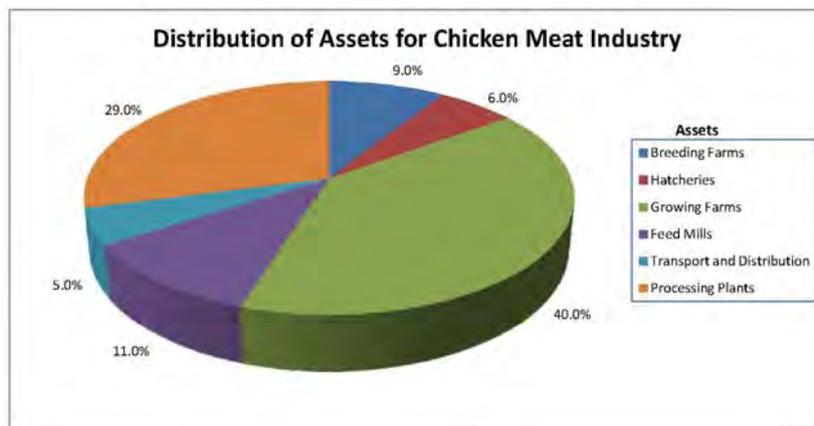


FIGURE 1 – DISTRIBUTION OF ASSET FOR CHICKEN MEAT INDUSTRY

Noteworthy, it can be seen that there is a high share of investment in growing farms when related to the total industry.

This capital structure provides some insight into the overall dynamics of the industry.

A Poultry Processor can become established with less than 30% of the total capital input of his enterprise. Contract growers collectively will provide the major investment, approximately 40%. Whilst day old stock and feed can be purchased from outside sources.

Transport and distribution can be contracted or leased out. This case applies to a varying degree to all of the processors in Western Australia.

The burden of unsecured capital provided by the Grower highlights the necessity for the Act and Regulations to continue to provide an avenue of orderly and automatic mediation and arbitration as the case had been since the inception of the Chicken Meat Industry Act in 1977.

If one were to look at all of the submission that were requested from the growers, this stands out as the primordial factor in their confidence to continue to invest in an industry which they helped to create.

Refer to **Attachment 1 – Individual Growers Submissions.**

The Financial Return to the Grower

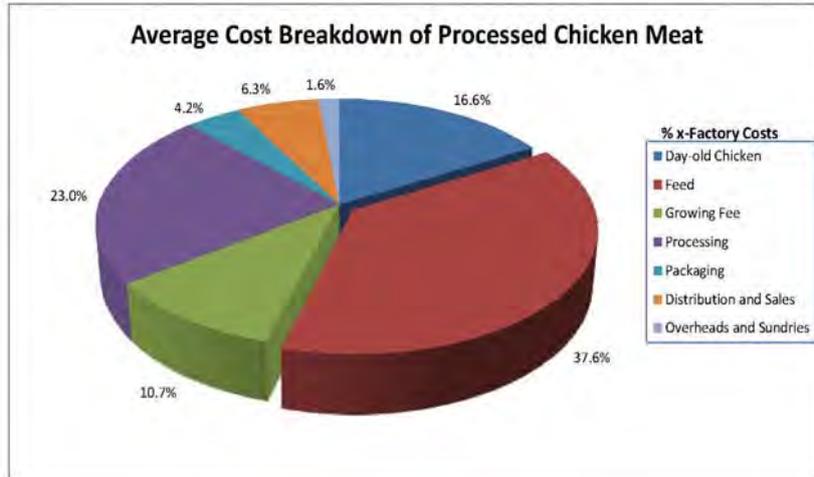


FIGURE 2 – AVERAGE COST BREAKDOWN OF PROCESSED CHICKEN MEAT

The Grower is paid a growing fee for each chicken picked up for slaughter by the processor. The Growing Fee is determined by the CMIC by determining a gazetted fee based upon a submission by the growers deemed as a 'notional fee', derived from a 'Notional Model' in accordance with the Act and Regulations. This in turn is then modified, based on the level of productivity of the growers particular processor. Plus any other factor such as market forces. This can of course vary considerably from the actual Gazetted fee, as indicated in Figure 3 below.

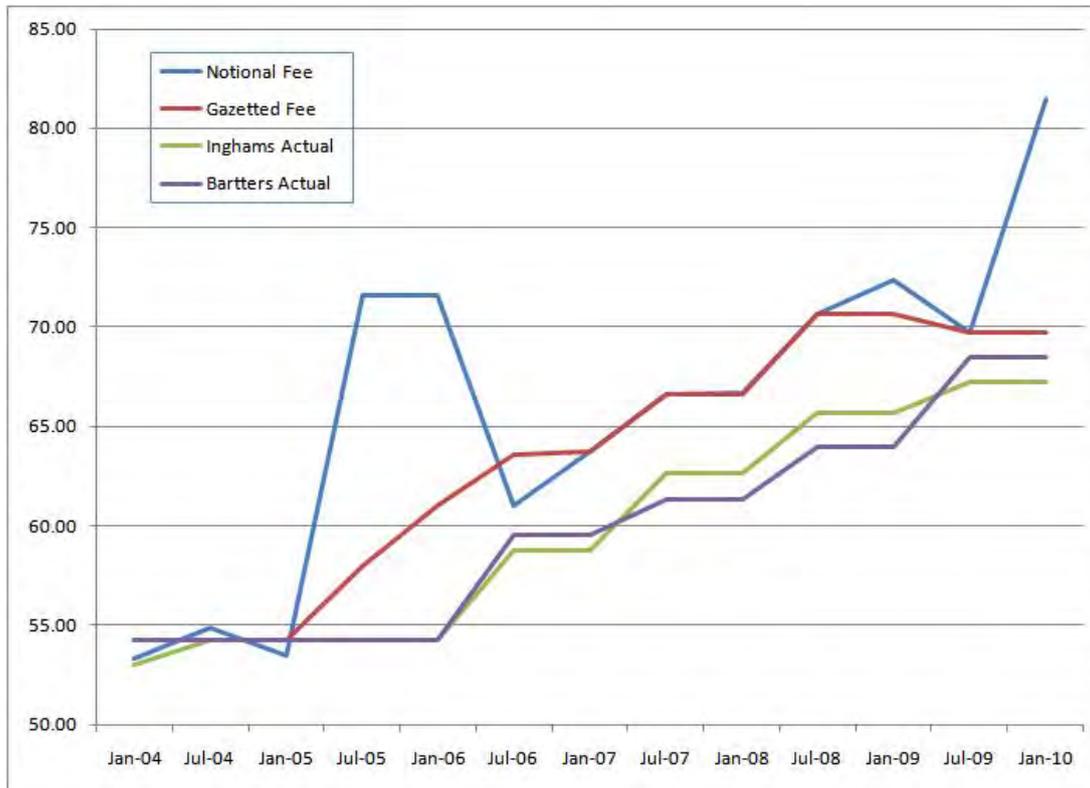


FIGURE 3 – MOVEMENT IN GROWING FEE

COST OF PRODUCTION - JULY 2009

COP SUMMARY - INDUSTRY AVERAGE MODEL (11,000m²)**(Based upon fixed tunnel density)**

The following table summarizes the cost of production for July 1, 2009.

DESCRIPTION	PRODUCTIVITY MEASURES	
	MEASURE Jan 2009	MEASURE Jul 2009
Size of Model (Square Metres)	11,000	11,000
Size of Model (Square Feet)	118,404	118,404
Placement Density (Square Feet Per Bird)	0.50	0.50
Placement Density (Birds Per Square Metre)	21.50	21.50
Mortality Rate (% Total Placement)	5.20%	5.05%
Batch Rate (Per Annum)	5.88	5.75
Birds Per Annum Per Model Farm Marketed.....	1,318,980	1,292,100

COST OF PRODUCTION SUMMARY					
DESCRIPTION	JAN 2009	CENTS PER BIRD	PERCENT MOVE	JUL 2009	CENTS PER BIRD
Return On Land	33,500	2.54	2.08%	33,500	2.59
Return On Site Works	25,580	1.94	-31.08%	17,269	1.34
Return On Shedding & Equipment	122,478	9.29	-27.75%	86,686	6.71
Return On Sundry Plant	23,571	1.79	-31.08%	15,913	1.23
Return On Capital.....	205,129	15.55	-23.68%	153,368	11.87
Depreciation On Shedding & Equipment	190,260	14.42	6.34%	198,197	15.34
Depreciation On Sundry Plant	42,698	3.24	1.65%	42,517	3.29
Depreciation On Capital.....	232,958	17.66	5.48%	240,714	18.63
TOTAL CAPITAL COST.....	438,087	33.21	-8.17%	394,082	30.50
Manager's Salary	98,174	7.44	3.82%	99,843	7.73
Hired Labour	85,016	6.45	3.82%	86,461	6.69
Litter	77,656	5.89	-0.16%	75,953	5.88
Fuel And Oil	12,519	0.95	-0.15%	12,245	0.95
Electricity	39,075	2.96	-0.16%	38,218	2.96
Repairs & Maintenance	54,023	4.10	-0.58%	52,617	4.07
Sanitation	20,373	1.54	-0.58%	19,842	1.54
Sundry Expenses	25,533	1.94	-0.58%	24,867	1.92
Gas	63,857	4.84	-8.84%	57,027	4.41
Rates	3,590	0.27	1.65%	3,575	0.28
Insurance	25,785	1.95	1.65%	25,675	1.99
Dead Bird Disposal	5,000	0.38	2.08%	5,000	0.39
Operating Cost.....	510,601	38.71	0.23%	501,323	38.80
Working Capital Charge.....	6,153	0.47	-5.76%	5,681	0.44
TOTAL OPERATING COST.....	516,754	39.18	0.15%	507,004	39.24
TOTAL COST OF PRODUCTION.....	954,841	72.39	-3.67%	901,086	69.74

FIGURE 4 – GAZETTED GROWING FEE

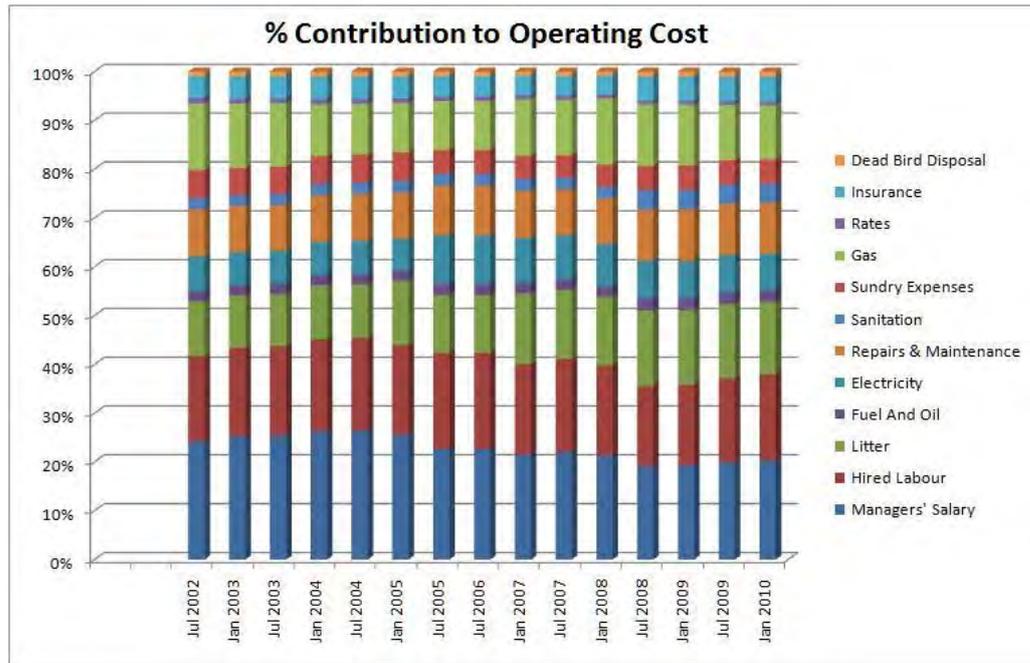


FIGURE 5 – PERCENTAGE CONTRIBUTION OF OPERATING COSTS

The stability of the costs shown in Figure 5, are mainly due to the growth in the size of the notional model farm – refer to Figure 7.

Pool Systems

All pool systems are of a complex nature, at the best of times pools are a lottery.

As one can imagine the input factors, affecting the outcome of the pool, vary considerably

These include: the quality, analysis and size of the feed; source, hatch weight and quality of the day old chickens; the age at which the birds are marketed; variable weather and finally the owner's facility and the growers themselves.

It should be pointed out that at no stage do we suggest that all growers have equal attributes in managing their farms.

We also acknowledge that like all primary production enterprises, specifically farming, nothing is constant. This we accept.

However, some of the pools that operate would do justice to the Nigerian scams that currently prevail.

An example being the so called benchmarking systems where growers above a certain benchmark are rewarded by a certain margin and those below the benchmark system are penalised three times the magnitude of the same margin, effectively allowing the processor to participate in the distribution of the agreed pool price.

Hypothetically, if 1,000,000 birds are marketed at the agreed price of 70 cents per bird, bearing in mind that the agreed fee has already been adjusted downwards from the Notional Fee to a Gazetted Fee and then to the Agreed Fee (see Figure 3 - Movement in Growing Fee), low and behold the Processor manages to only pay \$620,000 instead of the \$700,000 or an average of just 62 cents per bird. Now, you can see why they would do the Nigerians proud.

Chicken Meat Production Process

“Broiler chicks are grown in sheds that generally house around 40,000 birds. A typical grower may have between three and eight sheds. The broiler chickens are grown under controlled temperature and feed conditions. Some are culled at 30-35 days old and the remainder at 55-60 days old. “

The typical average Farm consists of 5 units of 1,870m². Stocked at a density of 20 birds per square metre for Tunnel units and 17.4 birds per square metre for Standard units) this equates to approximately 37,400 birds per batch for Tunnel units and 32,538 birds per batch for Standard units.

The culling of birds takes place for the whole duration of the batch, from day old to marketing.

Welfare dictates that sick or unfit birds should be humanely disposed of prior to marketing.

Reference to the 30 -35 day period is when the birds are harvested to meet specific marketing requirements. They are sent to the processing plant and at the same time ensures that the units do not exceed the welfare code in relation to kilo's per square metre at any given age.

All of the processors religiously adhere to this essential aspect.

The Chicken Meat Industry in Western Australia

Industry Structure

Growers

“Most growers in Western Australia are on contracts with either Inghams or Baiada (see Table 2.2). The chicken meat growers affiliated with the different processors are located in different areas to reduce bio-security hazards. Inghams' contract growers are located north of Perth while Baiada's contract growers are located south of Perth. Three Baiada growers recently switched processors to Finesse”.

Prior to the three Baiada growers, two Inghams growers of 9,220 m² and 9,240 m² converted their standard farms to Free Range for Finesse. Simultaneously a Baiada Farm of 5,470m² transferred to Finesse as did two further standard farms of 7,415 meters square and 4,842 m². All of the Baiada farms were under duress from the processor who indicated that their contracts would not be renewed unless they converted to tunnel.

Table 2.2 Number, Size and Affiliation of Main Chicken Growers in Western Australia

Grower Affiliation	Number of growers	Total Registered Shed Area (m2)
Inghams contract growers	17	182,770
Inghams company farms	2	18,190
Baiada contract growers*	13	131,694
Finesse Foods	5	36,187
Mt Barker Chickens	5	n/a **

Source: Western Australian Broiler Growers Association (January 2010), Cost of Production Model

Notes: * One other grower is on a private contract with Baiada – shed area not available to WA Broiler Growers Association.

** Mt Barker Chickens growers are on a private contract with their processor – shed area not available to WA Broiler Growers Association

WESTERN AUSTRALIAN TOTAL REGISTERED SHED AREA

INGHAM'S	
	sq.m.
<i>Free to Range</i>	14,348
- <i>Free to Range</i>	10,760
- Total	25,108
	15,173
	14,664
	13,210
	12,340
	12,328
	10,529
	10,234
	9,350
	9,350
<i>Free to Range</i>	9,350
	9,350
<i>Free to Range</i>	9,350
	9,108
	7,837
	5,489
Sub-Total	182,770
	18,190
TOTAL.....	200,960

BAIADA	
	sq.m.
1	21,351
2	14,090
3	11,279
4	10,848
5	11,033
6	9,232
7	9,417
8	8,224
9	8,338
10	7,613
11	7,045
12	6,581
13	6,643
TOTAL.....	131,694

FINESSE FOODS	
	sq.m.
1	<i>Free to Range</i> 9,220
2	<i>Free to Range</i> 9,240
3	7,415
4	4,842
5	5,470
TOTAL.....	36,187

Baiada external grower 43,792

***INDUSTRY
TOTAL = 412,633**

*This does not include Mt Barker Free to Range

FIGURE 6 – REGISTERED SHED AREA

Farms

At this point, I bring to your attention an anomaly within the Issues Paper relating to the number of farms in Western Australia.

“The number of growing farms in Western Australia has remained fairly stable over the past 15 years, varying between 55 and 65.”

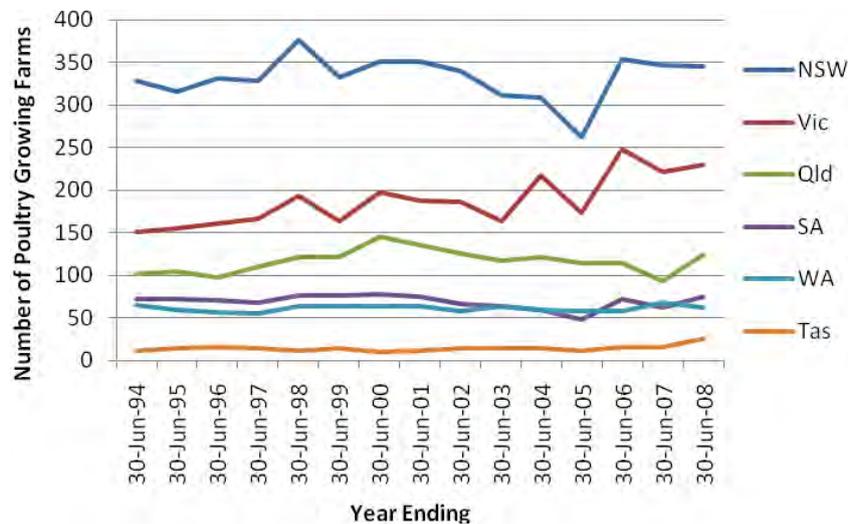
The number of Growing Farms in WA now totals 35 all who are members of the WABGA. Plus one Ingham company Farm; five Mount Barker farms and one Baiada Farm (Proten), this does not include a multitude of Breeder Farms.

Therefore it is reasonable to state that there are 42 Meat Bird Farms in Operation in Western Australia opposed to the varying number of 55-65 stated in the *Issues Paper* (pp8).

It should be made clear that the CMIC only approves the application for specific square metres of shedding and has no input into the physical design of the units, this is left to the processor who inevitably dictates the type of unit for the new expansion granted.

Since the inception of the Act and Regulations, the Grower Members of the CMIC have never opposed expansion but have made it abundantly clear when they felt that it would impact upon the growing fee by way of reducing productivity of the existing tabled notional model.

Figure 2.3 Number of Poultry Growing Farms in Australia, by State



It would be prudent in the first instance to identify the size of the Industry by way of registered square metres and number of farms that the WABGA represents.

This has fallen from 50 farms totalling 323,106 m² with an average farm size of 6,462m² to now 35 farms totalling 368,841m² with an average size of 10,538 m².

Interestingly the Notional Model Farm for Costing Purposes is based on 11,000m².

This occurred under the Act and Regulations, where preference was given to any farm smaller than the model, provided they were efficient, to expand therefore allowing the model to progressively become larger, as indicated in Figure 7 below.

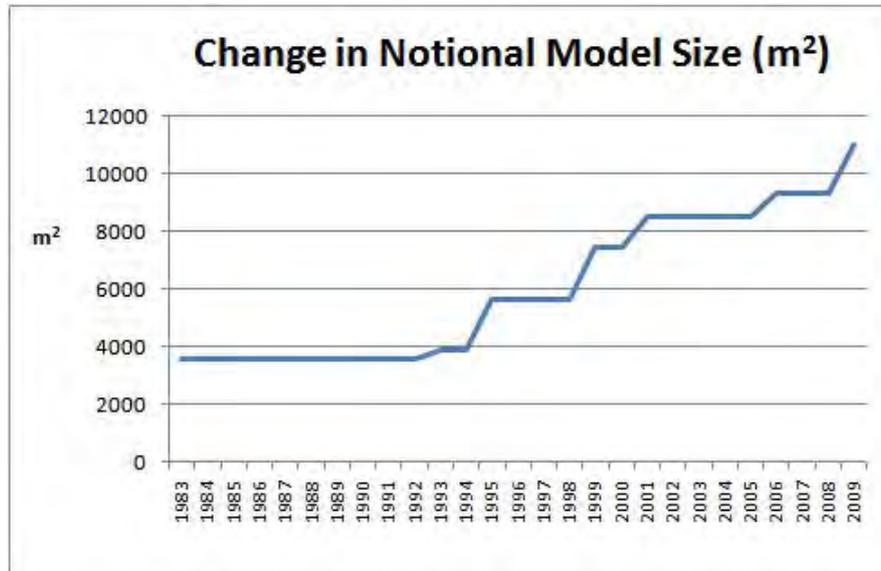


FIGURE 7 – NOTIONAL MODEL FARM SIZE

Surprisingly, contrary to the statement in the Issues Paper, (*pp 11: Inquiry into the Chicken Meat Industry Act 1977: Issues Paper* “*One grower for Baiada and the growers for Mt Barker Chicken have opted out of the Act and are subject to private contracts with their processors*”), none of the grower referred to were ever members of the WABGA, and therefore **did not opt out** however in the case of the new Bartter Grower, they were given expansion to the magnitude of 16 units of 2,737m², a total of 43,792 m² at the expense of productivity of the Bartter Growers.

This problem was solved by Barrter, in dictating to several small non tunnel farms, that their contract would not be renewed and in some cases they would only receive a three year contract.

The Industry has adapted to Industry forces in relation to Free Range Poultry. Currently, of the total 368 841m² of registered farm, 79,995 m² is free to range.

This is located across eight farms which were previously standard Ingham and Bartter broiler farms. (Does not include Mt Barker).

Retail Market

“A further consideration is how sensitive the demand for chicken is to the retail price, and the price of other meats, such as pork, beef and lamb, that may be substitutes for chicken meat. Studies suggest that the demand for chicken is less sensitive than other meats to changes in its own retail price and changes in the price of other meats. The Authority will be further examining the extent to which other meats are viewed by consumers as substitutes for chicken.”

At a cost of approximately \$130,000 Rural Industries Research and Development Corporation through the Chicken Meat R&D Program commissioned a Chicken Meat Usage and Attitude Survey.

It would be prudent for the ERC to refer to this document to further examine the extent to which other meats are viewed by consumers as substitutes for chicken and how this impacts on the retail price.

Refer to **Attachment 3 – Chicken Meat Usage and Attitude Survey**.

Free To Range Chicken

In responding to the following observations by persons unknown within the Issues Paper:

“According to the Department of Agriculture, free range producers may not be subject to the Act with regard to prescribed agreements or the approval of growing facilities, as these parts of the Act are based on the definition of broiler chickens as those raised under intensive housing conditions.¹³ This matter is unclear, as there is no definition in the Act of “intensive housing conditions”, and all commercial meat chickens, whether free range or shed reared, are kept in sheds for the first three weeks of their lives. The Authority would be interested in the views of free range chicken growers and processors as to the applicability of the Act to their operations.

The Authority understands that regulations may be made under the Act, including regulations regarding environmental, health and animal welfare matters relating to the growing of chickens. ¹⁴ The Authority would like to establish whether the Act is necessary for the implementation of such regulations or whether these concerns are, or could be, addressed through other legislative instruments (see Appendix B).”

The reality is; that all of the free to range farms were standard meat bird farms (as is predominantly the case Australia wide).

Theoretically, overnight they decided to go from standard meat bird operation to free to range, in most instances for the same processor.

The only modification was to cut access holes in the wall, fence off an external area 1.5 times the area of the registered square metres of that particular unit, and let the birds out, however, not before 21 days of age.

After 21 days of age these birds are then marketed at a similar age and weight as to the standards birds. All in all, at this stage the duration spent outside of the so called ‘**now**’ non-intensive housing conditions is approximately only 12.5 per cent of the life cycle of the birds marketed.

Thereafter, assuming all the birds went out, the maximum time spent external of the units would not exceed 45 per cent of the lifecycle of the bird.

To suggest that these birds are not grown under intensive conditions is deceptive, dishonest and misleading therefore we suggest that they should fall under the Act and Regulations. See **Attachment 1 – B. J & R Enterprises Pty Ltd (Free to Range Farm)**.

Refer to **Attachment 4 – Crown Solicitor’s Office Legal Opinion – Intensive Housing Conditions**.

National Competition Policy Review (1997)

“In 1997, the Act was reviewed for its compliance with National Competition Policy (NCP). This review recommended several reforms to the legislation, to:

- allow the development of individual bargaining between growers and processors;
- retain collective bargaining, but move away from bargaining at the industry level (between all processors and all growers) to bargaining at the company level (between each processor and its growers); and
- allow individual growers to opt out of collective bargaining if they wish to do so.

One grower for Baiada and the growers for Mt Barker Chickens have opted out of the Act and are subject to private contracts with their processors.”

This clause has been addressed above under “Farms” – please refer.

Chicken Meat Industry Act 1977

“The Committee, as defined by the Act, is appointed by the Minister and comprises an independent chairperson, two representatives each of chicken meat processors and chicken growers, and an additional two independent members. The Committee meets twice a year, and its functions are to:

- determine the standard price to be paid by processors to growers for broiler chickens;
- resolve disputes between processors and growers; “

It should be noted that on the amendment to the Act and Regulations following the National Competition Policy Review (1997), the ‘standard price’ was thereafter referred to as the ‘average price’ as it was acknowledged that no two growers rarely ever received a ‘standard fee’ when competing in a pool.

The Trade Practices Act 1974

The Committee will be bound by the provisions of the TPA unless it is an emanation of the Crown in right of Western Australia and does not carry on a business in the terms of section 2A of the TPA. That is, if the Committee is an emanation of the Crown and it does not carry- on a business it will be entitled to “Crown immunity “.

On balance it is likely that the Committee is an emanation of the Crown in right of Western Australia because:

- Its function are of a government of regulatory nature; and
- The Committee is subject to extensive Ministerial control and direction.

The Committee is not “carrying –on a business” on the terms contemplated by second 2A of the TPA. Consequently it is likely that in carrying out its statutory function including those in relation to determining the average price to be paid by processors to growers for their broiler chickens, resolving industry disputes and issuing approval certificates, the Committee is entitled to Crown immunity.

2003 Review of the Act

“The Act was last reviewed in 2003 by the Department of Agriculture. This review of the Act coincided with the drafting of amendments to the Act that were recommended in the NCP legislation review. In the review of the Act, it was concluded that the NCP amendments would generally improve the regulation of the chicken meat industry, as it would implement competition reforms while keeping features of collective bargaining. A further conclusion in the review was that these amendments, which were implemented through the *Acts Amendment and Repeal (Competition Policy) Act 2003*, also addressed most of the concerns raised in the submissions made by stakeholders in response to the review.”

The importance of this clarification relates to a series of significant amendments to the Act in 2004 necessitated as a response by industry to the National Competition Policy’s (NCP) recommendations.

Following a comprehensive review in accordance with the Australian National Competition Principles Agreement (2003) it is relevant to outline some of the findings and recommendations of the Review Committee.

Initially the Review Committee concluded that the Act had been effective in achieving its objective of stabilising the industry.

Further it found also that the Act had provided Net Public Benefit as the economics’ of scale associated with the high rates of investment in the WA Industry, which had been engendered under the auspices of the Act, had resulted in lower prices to the consumer.

Again the Review Committee had come to the following conclusions:

- (1) The committee considers the Acts success was due to its **very strong arbitrary clause** and strongly recommended that this be retained.
- (2) They reinforced the removal of restrictive element of the Act. This was done by way of amendments to the current Act.
- (3) The Review Committee also recommended that certain perceived restrictive elements be retained in the act.

Namely,

- a) Regulations and sections that afforded growers the protection of collective bargaining when negotiating an average fee in order that growers and processors be on a more equal footing.
- b) The provisions relating to a prescribed agreement between processors and growers should be retained due to the difficulty of accurately determining appropriate rewards to growers. The Review Committee was satisfied that the variations in payments to growers within the pooling system engendered sufficient competitive pressure to discriminate between efficient and inefficient growers.

Operations of the Act

“The Chicken Meat Industry Committee meets at least twice a year, primarily to update the cost estimates in the cost of production model used to calculate the gazetted average price. The cost of production model is developed and updated in consultation with growers and processors, and is available to all industry parties. Thus, there is transparency about the costs of growing broiler chickens and the method for determining the average price. There is less transparency about the contracts between growers and processors, which may use the average price as the starting point for negotiations, but then further adjust individual growing fees to take into account factors such as the productivity of the individual grower and the price of imported chicken meat.

There have been no formal appeals to the Chicken Meat Industry Committee, although the Committee has been involved in resolving some informal disputes. One view expressed by growers is that parties prefer to avoid arbitration and appeal through the Committee, due to the time and cost involved, and that the presence of the Act may therefore facilitate contractual negotiations, as the parties seek to reach agreement outside the dispute resolution processes under the Act.”

At this point clarification needs to be given on the above interpretation of the Acts’ function from the Issues paper.

The Individual Growing Groups fees are adjusted taking into account factors such as the productivity of that groups’ productivity and market forces that prevail, specifically loss of market share within WA or to an interstate processor. (Any reference to imported meat should relate specifically to meat that comes into WA from interstate as there is NO Imported Chicken meat allowed into Australia except cooked in cans.

For the record – it is wrong to state that there have been no formal appeals to the CMIC. I have taken the liberty of tabling several of these and have included them in this document. Notably:

- K.H. Lissiman, B.A.,B.Comm.,F.C.A. (The Chicken Meat Industry of Western Australia Arbitration Award made under the Chicken Meat Industry Act 1975 and the Arbitration Act 1895-1970).
- W.H.Crawford, F.C.A. was asked to arbitrate on the findings of K.H. Lissiman, B.A.,B.Comm.,F.C.A.
- Geer Sullivan Pty (Keith Geer). Refer to **Attachment 5 – Summary of Contentious Issues – Relating to Arbitration.**

Review of the Model 2008

This shows the scope and magnitude of the Review of the Farm Model that take place approximately every 3 years. The salient point within this document specifically, Attachment A referring to the previous preamble’s of all the reviews from 1995, 1998, 2002 and 2005, highlights the growers continued cooperation in ensuring the success of our industry. Refer to **Attachment 6 – Review of the Farm Model 2008.**

Ironically all of the above three cases were related to current cost accounting. All three rulings were handed down in favour of the growers.

It’s hard to imagine that to this day, the processors have managed to bypass the decision of the arbitrators and actually pay less per bird in so called depreciated farms, this of cause does not apply to there own facilities such as hatchers, breeder farms, feed mills and processing plants, or for that matter any other industry that ones cares to mention.

Chicken Meat Industries in Other States

In reading the Issues Paper on the situation on other States, one gets the impression that the Government believe that the ACCC is the panacea for all of the Industry's problems. In reality nothing could be further from the truth as in each and every State other than Western Australia, disputes appear to be the flavour of the month.

The below examples highlight the definition of "market failure" as prime examples that affect all industry and government services bound by Acts of Parliament, subsequently resulting in regulation and process appeal.

To this end, the Chicken Meat Act has been successful in ensuring an avenue of appeal is automatic via the CMIC. In other words, it is the inability for a primary producer to negotiate production process, against national conglomerates whose resources in this areas far out way that of the farmers. Accordingly we take a look a State by State:

New South Wales

1. Contracted growers in NSW were declined a price increase for 3 years in a row. The growers employed an independent negotiator. Mediation was unsuccessful. It wasn't until April 2009 that an arbitrator was appointed by the Courts, at which time Sunnybrand requested 8 weeks to prepare their material and as at the time of writing, arbitration has still not occurred. The 11 growers involved have contributed approximately \$240,000 as of March 2010 for legal and professional assistance. Their previous contracts expired in June 2009.
2. From January 2009 Bartter had avoided paying growers fee increases due to them, were late in paying and failed to renegotiate a new contract prior to the 1st July 2009. This forced around 30 growers to take legal action to recover their costs, and pursue breaches of contract due to a failure to negotiate in good faith. The legal Action was commenced late in June 2009 and due to the sale of Bartter to Baiada, this liability was transferred to the new owners. Court directed Mediation prior to legal proceedings was fruitless and in August 2009 the Courts ruled in favour of the Growers being entitled to a further 5 year extension of their current contract and awarded 70% of costs. The Growers have contributed approximately \$480,000 for legal expenses to date.
3. Grower Delegates commenced contract negotiations in April 2009. In July 2009 the Processor (Cordina) broke off negotiations and indicated they would take their contract to a full growers meeting in 3 weeks time. 3 weeks became 4 months. Processor staff continually rang growers and approached them requesting them to sign the contract, even before a copy had been supplied to delegates for legal advice. The Dispute is still active and the Processor has agreed to a full growers meeting attended by the PMIC in March 2010. There are no consequences for unconscionable conduct under state legislation.
4. Red Lea chickens commenced contract negotiations in June 2009. The company unfortunately is involved closely with Baiada and Cordina .In October 2009 the Growers disputed sections of the contract. Red Lea also ignored the dispute and it was referred to the PMIC. Unlike Cordina, Red Lea decided to negotiate the Issues prior to mediation. The PMIC advice to Red Lea was instrumental in achieving this outcome.

WABGA Comment :

Deregulation is not working here, except for the legal profession.

Victoria

Author: Mike Shaw; President, Victorian Farmers Federation Chicken Meat Group

The Victorian broiler chicken growers, like their interstate counterparts, raise chickens on contract for one or other, of the four chicken processing companies in Victoria, three of which are nationals.

The chicken meat industry in Victoria operated between 1975 and 1999 as a regulated industry, governed by a statute.

The regulated system was never anything to do with competition and was introduced to address chronic instability and to provide the industry with an equilibrium, which it in fact enjoyed, until the system was mothballed by the State Government following a review under the National Competition Policy.

The combined pressure of the Trade Practices Act, the National Competition Policy and the inactivity of the State Government forced the growers to seek a substitute process in the competition provisions of the Trade Practices Act.

Subsequently in 2005 the ACCC decided it was in the public interest to allow chicken farmers to collectively negotiate new grower contracts.

Since 2005, the Five VFF Branches have with varying success managed to negotiate collective contracts for their members although in most cases this has taken years to conclude and has involved, at times, bitter and expensive legal action.

Although authorisation enables growers to collectively bargain it does not compel processors to enter into negotiations, which at times, lead to a Mexican stand-off.

As a result negotiation costs have risen exponentially as both parties seek legal advice to develop and administer contracts.

Another unfortunate consequence of deregulation is the loss of an industry dispute resolution process.

In recent times we have seen a number of disputes, which in the past, would have been mediated at VBINC with minimal cost but are now leading to legal action.

WABGA Comment :

Deregulation is not working here, AGAIN, except for the legal profession.

Queensland

Queensland Chicken Meat Industry Committee Act (Author Gary Sansom AO).

This act provides an exemption from legal action for breaching Section 51 of the Trade Practices Act for contract meat chicken growers collectively bargaining contract including grow fees for services with their chicken meat processor.

The Queensland Chicken Meat Industry Committee (CMIC) as recognised in the Act has over-sight of the Processor Negotiating Groups including a Code of Practice for the conduct of these groups. The committee is also responsible for the initial handling of disputes regarding sums of money owed by facilitating access to mediation.

If the matter is not resolved by mediation then it can be referred to arbitration the outcomes of which are binding on both parties.

Disputes about the content of new contracts can go to mediation but cannot go to arbitration unless both parties agree.

The arrangements generally work well although there are issues from time to time particularly with regard to updating grow fees. In one instance a negotiating group has resorted to using a consultant to negotiate fees on their behalf. Whether this was actually necessary is a moot point but what it has clearly shown is the high transaction costs of such an arrangement to establish a fee (\$90 000) for one year.

For an individual this would simply not be viable as this would represent around 15-20% of gross farm returns.

The current CMIC Act has a sunset clause (10 years) and so the Act is to be reviewed this year. This is currently underway with a discussion paper due soon. While the outcome of such a review cannot be predicted there is an added complication of the outcome of a review in 2009 of Government Committees and Boards known as the "Weller Review" which recommended that the Committee be replaced by an industry funded company (the current committee is also funded almost entirely by the industry). Whether it is possible for such an entity to be responsible for administering a piece of legislation is at this point in time unknown.

The Act in its current form has served the industry well. The processors do not appear to have any issue with its continuation as do the growers.

If the Act were to be repealed either because of the review itself or because the structure recommended by the Weller Review is not workable then the growers would be forced to seek an alternative which would allow them to bargain collectively with their processor without being in breach of the Trade Practices Act (the Act).

The Australian Competition and Consumer Commission (ACCC) does have the power under the Act to provide two types exemptions from prosecution for collective bargaining namely

- a) Notification and
- b) Authorisation.

Notification

The notification process for collective bargaining arrangements provides immunity from potential breaches of the prohibitions in the Act for certain cartel arrangements (including collective agreements as to price), anti-competitive agreements) and exclusionary provisions.

The immunity provided by a collective bargaining notification commences at the conclusion of a 14-day statutory period. Immunity will remain in place for three years unless revoked by the ACCC.

An application for Notification must be made by the individuals who intend to engage in collective bargaining or by an individual representing the group. If a member listed on the notification decides to leave or a new member wishes to be included then new notification needs to be applied for.

Other interested parties such as the target can make submissions opposing the application. Notifications that are granted can be revoked by the ACCC. There is a lodgement fee of \$1000 dollars.

Authorisation

Authorisation is a process under which the ACCC can grant immunity¹ for potential breaches of the competition provisions of the Act if it is satisfied the conduct delivers a net public benefit. Authorisation may be sought in relation to any of the competition provisions under Part IV of the Act except for misuse of market power.

An application for an authorisation can be initiated by or on behalf of the parties to the conduct.

A detailed submission is required clearly showing there is no public detriment if the ACCC grants the authorisation. This may incur a significant cost in engaging a suitably qualified person to do the submission

It can take up to six months for a decision.

Authorisations are usually only granted for periods of 3 – 5 years. At the end of this period another application must be made

Authorisations maybe appealed. If it goes to the Federal Court the applicant must pay the costs along with the appellant until the outcome is known when costs may be awarded.

The application fee is \$7500 although the ACCC may agree to a reduced amount if there is hardship. This amount is usually \$2500.

Neither of these two mechanisms offers any real certainty for growers in engaging in collective bargaining as opposed to legislation.

There is no automatic process of dispute resolution other than what is agreed to in a contract assuming that there is one. Contracts would not be compulsory as they are currently.

WABA Comment :

It gives us NO comfort to know that the ACCC is standing by to give us authorisation exemption to do exactly what we, in WA, are already doing. Inevitably, there will a magnitude of ongoing costs and uncertainty, regrettably with the knowledge that we will end up like South Australia.

South Australia

They went from this....(a solution to all their problems).

**South Australia's
New Chicken Meat Industry Legislation:
A Balancing Act¹
by
Glenn Ronan² and Greg Cox³**

In the United States poultry farmers are offered contracts of company design, have no say in what is included in the contract and have the choice of signing it or no chickens. Not much choice there. Most poultry meat farmers are so deep in debt from mortgages on their poultry farms and constant demands from integrators (processors) of new equipment that they have to sign whatever is offered because they need chickens on the farm.

The newest thing in contracts in the US is binding legislation. This takes away the growers right to our judicial system and the grower cannot sue the integrator in a court of law. The abuse of the American poultry farmer is unbelievable. Most growers don't speak out for fear of losing their contracts.

At the present time there is no government agency watching over the integrators like they should be watched. Our government is aware of the abuse of the farmer but does not seem to care. Money runs the show and the integrators have plenty of it. They basically run like a pack of dogs and do whatever they want.

An American poultry farmer's view of the unregulated market for contract chicken meat growing in the United States, 1996

¹ Developed from a paper presented to the Meat Industry Development Board, Primary Industries and Resources South Australia, 12 August, 2003. Acknowledgements to Ms Laura Fell, Chair, Chicken Meat Group, South Australian Farmers' Federation and Dr Tim Ryan, Consultant to SA Processors, for constructive dialogue throughout the progress of the legislation.

² Glenn Ronan is Principal Strategy Consultant, Corporate Strategy and Policy, Primary Industries and Resources South Australia

³ Greg Cox is Managing Solicitor, Business and Competition, Crown Solicitors Office, Attorney Generals Department, South Australia.

Introduction

Passage of the Chicken Meat Industry (CMI) Bill in the South Australian Parliament on 16 July, 2003, its Royal assent on 24 July (to become the CMI Act) and its proclamation on 21 August, 2003, establishes a new standard of legislation in Australian primary industries to address the issue of market power concentration at the processor/grower functional level, and the consequent imbalance in bargaining power between processors and contracted growers. Outlined in this paper is the economic contribution and structure of the chicken meat industry in South Australia, the background to and aims of the legislation and the new choices and potential consequences for growers and processors that accompany the legislation.

Industry Setting

Primary Industries and Resources SA Industry Scorecard calculates that the value of the South Australian chicken meat industry in 2001-02 at grower farm-gate was \$70 million; value at processing plants was \$174 million and retail value was \$210 million. South Australia exported about \$66 million of chicken meat interstate and imported about \$36 million in that period; a net contribution of \$30 million from interstate trade. In the absence of any significant overseas trade in chicken meat the industry contribution to Gross and Net State Food Revenue was \$280 million (PIRSA, 2003).

The South Australian industry comprises around fifty growers, supplying growing services on contract to three processors – Inghams Enterprises (about 32 growers), Adelaide Poultry (about 18 growers) and Gourmet Poultry (about 5 growers). There are several hundred employees at the three plants in Adelaide.

Compared to the processor/grower functional level, there is fierce competition at the wholesale/distribution level. This has led to significant restructuring within the South Australian industry during the past 18 months. Early in 2002 Bartters ceased to process chickens in South Australia, but continue to supply South Australia from their upgraded plant at Geelong in Victoria. Late in 2002 Joe's Poultry fell into administration and was purchased earlier this year by Adelaide Poultry. New South Wales headquartered Baiada Poultry have increased supply into the Adelaide market from recently acquired plants in Victoria.

Adelaide-based Gourmet Poultry have switched their supply of chickens from Inghams to direct contract with a cluster of growers in the McLaren Vale area. Inghams are midstream in restructuring their grower base towards fewer, larger growing farms. These changes are indicative of the fiercely competitive national market for chicken meat. Due to the increasing oversupply of available shedding, some chicken meat growers are being left without contracts, without an income from chicken growing and with redundant assets. The current rationalisation of supply contracts is expected to continue, with many smaller enterprises lacking development options for a range of reasons, including having farms located in rural city and peri-urban water catchment areas.

The occurrence of 'stranded assets' in the chicken meat industry is an international phenomenon where the pace of change, the business of contracting, and the imbalance in processor/grower power can combine to produce harsh, and in some cases terminal, outcomes for individual grower enterprises (Skully, 1998; Harl, 2000).

It is recognised that the South Australian grower base has lagged in its adjustment to 'national best practice'. Shedding floor space per farm in South Australia is about 5000 square metres, compared to more than 8,500 square metres per farm in Western Australia. Other states also lag behind the scale of enterprises in Western Australia. However, the authors are not aware of any independently validated

research trials about optimal growing operations, whether of farm size or growing technology, addressing issues such as, inter alia, transport economics, biosecurity and efficient farm management. Amongst growers, there is often debate and disagreement as to the benefit-cost of new technology, particularly shedding ventilation systems.

Chicken meat is Australia's second most popular meat, with consumption around 32 kilograms per head per year. Market growth is grounded in meat quality consistency, high feed to meat conversion efficiency, economies of scale at grower and processor level and the need for on-going restructuring to take advantage of these economies. The chicken meat industry is dynamic and competitive at a national level, though starting to raise some concerns about market concentration. Although spared competition from imports, processors in particular are alert to the possibility of change in chicken meat import risk assessment, currently under review.

The *Chicken Meat Industry Act 2003* does not extend its interest to processor concern about the concentration of supermarket retail power in Australia. Its focus is on the monopsonistic nature of the market for chicken meat growing services.

Why the SA Government Renewed its Regulation of the Chicken Meat Industry

The *Chicken Meat Industry Act 2003* introduces a new legislative scheme to address an old problem in an innovative way. It repeals the *Poultry Meat Industry Act 1969*, with its anti-competitive, centralised control by an industry Committee over new grower entrants and the terms of growing agreements, and addresses the long-standing market circumstance of bargaining power imbalance between processors and growers in the concentrating market for growing services. This is a market where growers provide specialised and valuable shedding with no alternative use, and may have only one purchaser in their region for their services. This is regional monopsony. It is a type of market where market failure in the form of abuse of market power can and does occur. The Hansard record of the debates on the Second Reading of the Bill in the South Australian Legislative Assembly (evening of 16 July, 2003) provides some examples of this conduct (Hansard, 2003).

A majority of grower submissions and the SAFF submission to the Review Panel during the consultation about the draft *Chicken Meat Industry Bill* in South Australia indicated experience of harm, commercial cost and fear of retribution during the de facto deregulation period, 1997-2002 (Review Panel, 2002; SAFF, 2002). This was a period when Australian Competition and Consumer Commission (ACCC) authorisations for collective negotiation were in place with the two major companies in the State.

The conclusions drawn from the ACCC authorisation experience are:

1. That the ACCC's concern is the *Trade Practices Act* net public benefit assessment as to whether collective negotiation is justified or not. It has no obligation to ensure that negotiation actually occurs (in fact, it has no powers in that area - State legislation is required); and,
2. That the Trade Practices Act does not have realistic or reasonably accessible remedies to allegations of unconscionable conduct from chicken meat growers.
3. In any event, there is a world of difference between the existence of such remedies, and the practicality of growers undertaking major litigation against the very processor that they must inevitably deal with, on a day-to-day basis.

The challenge in drafting legislation became the striking of a balance between the imperative of allowing market-driven change on the one hand and providing effective checks against harsh and unreasonable treatment of growers in an imperfect market on the other. This had to be provided against the background of a scheme that enabled an effective section 51 *Trade Practices Act* exemption, such that the exempted conduct, including the identification of the collective negotiation parties, was specifically identified.

Contrary to some interpretations, the South Australian Government did not deregulate the chicken meat industry during the 1990s. Around 1996 the Poultry Meat Industry Committee decided that the *Poultry Meat Industry Act* contravened the *Trade Practices Act* and, of its own accord, and despite clearly expressed concerns by the contract growers ceased to function. An attempt in 1997 to deregulate the industry by the then Liberal Government failed in the Legislative Council. Growers were then promised new legislation. The previous Government commenced the present legislative process in 2000.

Collective bargaining has been justified by the ACCC approval during the past six years of several applications from national processing companies (eg Inghams, Bartters) for the authorisation of collective negotiation by growers with their processor, on the basis of the net public benefit flowing from addressing the imbalance in bargaining power. In 1997, this was approved on the basis of an actual imbalance, not a perceived imbalance, as then Commissioner, Mr Alan Fels, told Inghams Enterprises, Australia's largest chicken meat processing company, in rebutting their proposition that the imbalance was merely perceived. The ACCC renewed the authorisation to Inghams in 2003.

Collective bargaining by small businesses has been an issue of considerable discussion since the 1989 Bedall Inquiry into Small Business. It was the only issue addressed in the SA Government submission to the Dawson Committee Review of the *Trade Practices Act 1974*, which commenced in 2001. In its April 2003 report the Dawson Committee acknowledged that small businesses are often at a disadvantage when negotiating with larger businesses. The Committee recommended that where collective bargaining may do little or no harm to the competitive process, and may generate public benefit, the authorisation process should be speeded up. The Committee proposed that groups of small businesses be permitted to notify proposed collective negotiations to the ACCC. Immunity would come into effect after 14 days and would remain unless revoked by the ACCC on public interest grounds. The Committee also agreed that the authorisation process has been too long in some cases and that the period for consideration be reduced to a maximum of six months (Corrs *et al*, 2003; Dawson *et al*; 2003; Pengilly, 2003). The Dawson Report was silent on the outcomes of ACCC collective negotiation authorisations; that is, whether authorisations actually provided sufficient countervailing power to achieve genuine negotiation between the authorised small and large businesses and whether allegations of harmful and unreasonable behaviour were satisfactorily resolved.

Industry experience in South Australia is that ACCC authorisations to collectively negotiate have been insufficient to achieving two-way negotiation and have not been an effective check to forceful behaviour. A similar conclusion about the value of an ACCC authorisation to collectively negotiate was reached in Victoria. The Victorian Farmers' Federation successfully appealed to the Federal Court against an ACCC authorisation to processors for collective negotiation with growers. The judgement of 5 August, 2003, was that an authorisation is only valid where both parties agree to the authorisation. Growers were of the opinion that the authorisation was unwelcome as it would favour processors and not correct the bargaining imbalance (VFF, 2003; Skulley, 2003).

The *CMI Act* follows the ACCC justification of collective bargaining, and incorporates the extra disciplines of compulsory mediation and arbitration to increase the prospect of genuine negotiation occurring. Mediation and arbitration are appropriate alternatives to expensive court litigation where parties with a mutual interest in growing/processing chickens are reluctant court protagonists. Access to mediation and arbitration under ACCC authorisation requires both parties to agree to the pathway, which is unrealistic and has not occurred.

The Act is pro-negotiation. The principal aim of compulsory mediation and arbitration is not to have a preponderance of mediation and arbitration, rather to provide the critical missing factor enabling better-balanced bargaining. It is the ‘circuit-breaker’ for disputes, and ensures that one party’s view cannot be forced on the other party, without there being at least an outcome of mutual advantage or a convincing argument as to why that outcome is necessary. An industry shift from mutual mistrust and forced contract outcomes towards mutual interest, greater cooperativeness and trust will hopefully head off entry down the mediation and arbitration pathway. The prospect of cost recovery of arbitration expenses against the unsuccessful party should act as a discipline to discourage inappropriate access to arbitration.

The Act is also pro-competitive. Importantly, chicken meat growers can opt out of the scheme to negotiate their own contracts and manage their own disputes. The Government responded to National Competition Council concerns and amended the Bill in certain areas during its consideration. This included removal of the exclusionary conduct exemption, removal of the cap on contract length and introduction of a six-year sunset clause (thus leaving the decision as to the renewal of the Act to Parliament, after a review of the operation of the Act).

The Act joins the industry to commercial arbitration law. A Registrar, a public servant to be appointed by the Minister for Agriculture, Food and Fisheries, will:

- manage a Register of growers, which identifies those participating in collective negotiation groups, those with batch to batch contracts and those with individual contracts;
- publish industry economic information, and
- facilitate negotiation and direct disputes to mediation and arbitration where negotiation fails.

Overall, the Act introduces a “rules-based system”, presenting growers with choices where there has been little or no evidence of choice for the majority of growers during the de facto deregulation period, 1996-2003.

The Future

As indicated previously, the progress of the *CMI Act* has been accompanied by structural change. Processors have been making new assessments of farm bio-security risk and responding to new transport and farm technologies and market forces by restructuring their growing contracts in favour of larger farms. The fact that the Act was not enacted prior to the expiry of most five year written contracts in September 2002, has left some growers growing chickens on a ‘course of action’ basis rather than under written contract at proclamation date, when the transition provisions became effective. On 21 August, 2003, all contracted, registered growers were embraced by the new scheme, at least until they are deemed ineligible to stay in (probationary growers) or elect to opt-out. Staying in the scheme does not override terms and conditions of any current written contracts, but does provide access to the scheme’s dispute resolution processes. Growers may opt out of the scheme at any

time to manage their own negotiations directly with their processor, but cannot opt back in until expiry of their current contract.

The Act is quite explicit in its desire to maintain a dynamic and competitive chicken meat industry in South Australia; dispute resolution must take account of economic and efficiency imperatives mandated by the Act, as well as the equity requirement. Viability and competitiveness are driving grower enterprises from an average shed space per farm of around 5000 square metres towards current national best practice approaching 10,000 square metres per farm. The Act does not include a shed expansion scheme, which is an important feature of industry arrangements in Western Australia, facilitating adjustment in the face of peri-urban expansion. Nor does the Act protect growers from the need to adjust in a dynamic industry. However, it has the power to provide a check upon harsh contractual terms and unreasonable behaviour, including unreasonable exclusion of growers in renewal of contracts.

The Federal–State Governments’ Competition Principles Agreement (CPA) necessitated the review of the previous legislation and its repeal, based on its anticompetitive effects without a counter-balancing public benefit. However, the current assessment by the SA Government is that total deregulation would involve substantial social detriment and is not appropriate in South Australia at present.

The issues addressed by the Act are not confined to South Australia; they are national issues. Given the presence in all States of market failure, evident as market power problems, in the market for chicken meat growing services it would be desirable for all States to have similar or matching legislation for a consistent check to the imbalance of bargaining power and its harmful consequences for growers. The market power problems that merited the 1960s genre of countervailing power legislation in the industry, *ipso facto* confirmed to persist to the present by dint of ACCC authorisations, are not in prospect of dissipating. This was the grist of written grower submissions during consultation about the draft CMI Bill in South Australia in 2002.

Importantly, the Act presents no threat to processing companies conducting business on a fair and reasonable basis. The best-case scenario for the industry in South Australia will be one where the Act is largely silent; negotiation is experienced by both parties and is successful in contract formation and dispute resolution, and little or no arbitration is needed. The fact that arbitration is not costless should stifle trivial disputation; the fact that the Act requires arbitration to consider industry competitiveness will avoid malalignment of the local industry in its national context.

It is quite possible that with the restructuring occurring in the South Australian industry more growers will opt for individual contracts. So long as no coercion accompanies that choice the outcome will not be inconsistent with the equity objectives of the CMI Act. The fact of choice is fundamental to the CPA.

Summary/Conclusions

The *Chicken Meat Industry Act 2003* is an innovative connection of an important primary industry in Australia to commercial arbitration law. It leverages off ACCC support for collective negotiation in circumstances where countervailing power for small businesses bargaining with a larger business may do little harm to the competitive process and may not be detrimental to competition. While the Dawson Committee Review of *The Trade Practices Act* supported a speedier notification system for collective negotiation as an alternative to protracted authorisations, neither the ACCC nor the Dawson report have a satisfactory response to the persistence of unconscionable conduct in the presence of an authorisation or a notification.

The unsatisfactory experience of ACCC authorisations to chicken meat processors to collectively bargain with their growers in South Australia has led to the *Chicken Meat Industry Act 2003*. In Victoria, the Federal Court decided on appeal in favour of growers (*Victorian Farmers Federation v ACCC*), that collective negotiation should not be authorised. Growers opposed the authorisation as an unsatisfactory substitute for appropriate legislation.

In principle, collective negotiation by chicken meat processors with growers is a remedy to bargaining imbalance, is not a significant detriment to competition and therefore has merit. In six years of practice in South Australia ACCC authorised collective negotiation failed to yield genuine negotiation for chicken meat growers. South Australia's *Chicken Meat Industry Act 2003* and the August, 2003, Federal Court judgement in Victoria are aligned in rejecting ACCC collective negotiation authorisations as a sufficient remedy to the market failure of benefit to growers.

The *Chicken Meat Industry Act 2003* is a discipline to fair dealing in the industry. In contrast to an earlier generation of legislation that it replaces, and in an endeavour to comply with National Competition Policy, the Act provides the opportunity for growers to opt-out of the scheme to individually negotiate contracts, with the possibility of a better deal and the risks and responsibility of resolving disputes that may arise individually or by recourse to litigation. Its innovation is the installation of access to compulsory arbitration as a discipline to genuine negotiation. Drafting and amending the *CMI Bill* required balancing contemporary policy bias for deregulation with local industry experience that a harmful and unreasonable commercial culture can develop and persist where no 'third-party' checks exist. In South Australia, processors and growers have changed circumstances to consider. Growers have some new choices where there were none; processors have the same choices with some new potential consequences.

Although the market for contract-growing services in the chicken meat industry has unique features, and its connection in South Australia to commercial arbitration law is novel, it may not be the only primary industry to make the connection if present trends in market concentration reveal similar adverse economic and social impacts elsewhere in contract agriculture.

The experience gained in achieving the *CMI Act* in South Australia suggests that it may be useful for additional research of 'triple bottom line' construction to be conducted in the chicken meat industry. The research would be relevant to overcoming institutional scepticism about the presence and significance of socio-economic detriments in the industry, leading to implementation of remedies more effective than the present type of ACCC authorisations and national consistency.

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To this.....

From 1969 the SA chicken meat industry has had legislation (first the Poultry Processing Act), then in the 1980/90's the Poultry Meat Industry Act, which had a committee consisting of equal grower and processor representatives from all processors processing chicken meat in SA, chaired by an independent government person and a secretary administrator / minute taker.

In addition to other duties, it controlled expansion of growing facilities and came to an agreement what the state chicken growing fee was – this sometimes was slightly adjusted for each processor company grower group based on productivity / facility requirements.

This above legislation served SA growers quite well, as it gave growers' security in the industry, and enabled a collective growing base fee to be negotiated. From this fee growers were individually paid on a performance basis for each batch of chicken produced.

Also, growers had somewhat security that Processors could not create artificial expansion requirements and then sack some growers for whatever reason. (Growers could lose their growing contracts if they were in-efficient).

In the late 1990's the Poultry Meat Industry Act came up for review, and from pressure from one particular Processor, the Govt. of the day decided to set the legislation aside (not repealed) while an enquiry was made into the operations of the Act and the welfare of the state chicken growers and the industry.

To meet and to be compliant with "National Competition Council" requirements, the SA Parliament, in 2003, introduced new legislation called the "Chicken Meat Industry Act 2003" – this Act had no state committee, but a Govt. appointed "Register" to administer the Act. Processors and growers paid were levied to cover the operation of the Act.

This Act intention were to look after –

- a) the structural arrangements of the chicken meat industry ,
- b) growers' sunk investments in their chicken farms,
- c) the contractual practices, bio-security and other farm management issues and the commercial factors that restrict growers to exclusive dealings with processors,
- d) the general imbalance in bargaining power between processors and its growers, and
- e) the ability of growers who were able to be part of a collective growing group to meet collectively together with their Processor, and not breach ACCC regulations.

This Act enabled Processor / Grower groups to set up "negotiating groups" to negotiate, amongst other things, grower payment methods and fees (and granted ACCC exemption). There also was ability for Processors to have growers signed up on individual "growing agreements"

The Registrar's functions were:

- a) to advise the Minister, who each year was to report to Parliament on the chicken meat industry,
- b) to facilitate collective negotiation between processors and its contracted growers,
- c) to gather and maintain current information about growing costs and pricing in the chicken meat industry in SA, and (as far as is reasonable achievable) in other parts of Australia, and to publish this information in a general form consistent with the Registrar's obligations of confidentiality (this, initially was done on a PIRSA website – later became in-effective because it was not updated regularly),
- d) maintain a register containing:
 - i) the name and business address of each chicken grower party to a growing agreement with the processor, and whether the grower is eligible to be a member of a negotiating group with its processor,
 - ii) the dates on which each chicken growing agreement to the processor is to expire, and whether the agreement was individual or collectively negotiated, and in the latter the names of the grower's party to the agreement.

While the intentions of the "Chicken Meat Industry Act 2003" were good, they generally failed for growers. Twice when growers asked the Registrar for assistance in dispute resolution, he was unable to make processors to partake in mediation. While there has been some grower groups, other processors refused to negotiate with a grower group but coerces its growers into individual contracts (carrot of "we will look after you if you sign up individually"), and refusal to enter into any negotiation of fee review on a group basis. Initially the early individual contract growers were looked after, and as time went on either you had to sign an individual contract, or you were forced out of the Processor/grower group. Within a couple of years of signing up individual contracts, the Processor told the grower what he was being paid with no meaningful negotiation occurring. Because of "confidentiality clauses" in the individual contracts growers are prohibited from discussing together any terms of their contracts. This brought about many inequities in growers financial returns and started growers' frustrations with their dealing with its Processor, in-so-much that by late 2007 growers started to look into obtaining ACCC authorization to collectively have discussions between growers. ACCC notification was obtained in March 2009 – four representative elective grower members from this growers group have been meeting to set up a new draft group contract and terms for its growers.

It needs to be remembered that the "Chicken Meat Industry Act 2003" lapsed in 2009.

Points for strong Legislation and Collective Grower Groups:

- a) On individual growing agreements, growers do not have ability to negotiate fair remuneration for return on their "sunken investments" in their chicken farms, and a fair return for their efforts in growing of the Processor chickens.
- b) The "mediation / arbitration" clauses are virtually useless, the costs of taking a matter to courts is too expensive for growers to pursue, and then the threat that if you do go to court, you may not have any more batches to grow with your Processor (or possibly any other Processor in the state).

- c) Transfer between other Processors is almost impossible – unless the Processors want this to suit their own needs then you are virtually told where to go and have no choice.
- d) The mentality issue that some Processors treat its growers' on a “do as we say” basis, with scant regard to growers welfare and economics, (even though most contracts have a clause to the effect that we are contractors, not employee's or servants).
- e) The cost of obtaining ACCC authorization / notification is quite expensive – not just the application fee, but a larger amount in the setup (legal fees, etc).
- f) Now that there is no legislative requirements for Processors to have a growing contract with its growers, it is already apparent of the reluctance of a Processor to enter into a meaningful proper written contract for a new grower farm – this is leading to financial problems for the security of financial loans.
- g) Considerable monies can be saved if a common growing contract (that has once been passed by a lawyer) can be used (with possible site small variations), than every one needing to do this on an individual basis.
- h) Also, growers feel happier when they are able to discuss their industry concern together, with out the presence of Processor people present and have representatives of their group negotiate for them a fare growing fee remuneration as many do not have these skills and feel intimidated to do this themselves.

Amongst the majority of SA growers for one Processor, the feeling is very strong to have a common ability to have a group and do most things together.

We in Western Australia certainly would not want to go down this path as it is quite obvious that what you have said in your Issues Paper: [“It is evident that the Act is generally not resorted to by either the Growers or the Processors. Whether it should be renewed or left to expire depends on whether the Industry is capable of complete self-regulation and whether other bodies within the Industry and mechanisms of dispute resolution are able to provide sufficient support to the Industry.”](#)

This highlights the fact that it takes two to tango. As it stands now, the growers appear to be out on the dance floor alone.

Tasmania

The Tasmanian Growers are now reapplying for authorisation to allow collective bargaining. On the surface it appears to be working reasonably well, this may be attributed the fact that there is a limited amount of farms with one Processor, ie Inghams.

The size of the bird, like Western Australia, now usually does not exceed an average weight of 3.4kg. This services the local market with the bulk of the value added and breast meat coming in from Victoria or South Australia if required.

Acronyms and Abbreviations

WABGA	Western Australian Broiler Growers Association
ERC	Economic Review Committee
EPA	Environmental Protection Authority
MOU	Memorandum of Understanding
EMRC	East Metropolitan Regional Council
ACCC	Australian Competition and Consumer Commission
ACT	Chicken Meat Industry Act 1977
Broiler Chicken	Defined in the Chicken Meat Industry Act as “a chicken which is being or has been grown under intensive housing conditions specifically for consumption as a meat after processing.
CMIC	Chicken Meat Industry Committee
NCP	National Competition Policy
NPI	National Pollution Inventory
TPA	The Trade Practices Act 1974
VFF	Victorian Farmers Federation
VBINC	Victorian Broiler Industry Negotiation Committee

ATTACHMENT 1

GROWERS SUBMISSIONS



B J & R Enterprises PTY LTD

Po Box 15 Muchea WA 6501

Ph: 0429 778 560

Email: robertkestel@bigpond.com

My name is Robert Kestel and I have been in the meat chicken industry of 29 years. Over the last 2 years I have travelled Australia and the world extensively researching different aspects of the chicken industry.

In all countries and states within Australia the major disputes are over price negotiation and contracts for growers. To resolve these disputes costs hundreds of thousands of dollars, with the costs in most cases being at the expense of the chicken farmer.

The act in WA has always acted as a back stop thus expensive court cases have not been necessary. I could comment on numerous points in the issues paper that are not correct and obviously written by people with little knowledge of the industry. The authority has asked for comments from the Range farmers and processors as to the applicability of the Act to their operations.

Contrary to what to Ag Department may think, free range chicken farmers are subject to the act as their operations are still intensive. Chickens are not permitted to range until they have reached 21 days in age, and when allowed to range they are then locked back in the poultry house at night time for animal welfare reasons like protection from weather and predators. This is SOP until birds are marketed at 50 days of age. The investment required for free range production is higher than that of conventional production due to the fencing range hatch requirements. Minimum standards for free range housing i.e. Feeders, drinkers, foggers, fans etc. Are the same as conventional housing.

The act is extremely applicable to my operation as i still require a contract to the effect of the prescribed agreement, if this was not the case processing companies could change minimum shedding standards then demand that i implement those changes and not compensate our operation for the cost incurred in doing so.

The price determination mechanism is also critical as without the support of the act processors would erode away our returns thus making our operation unviable then in turn affect the continuity of supply and quality that consumers of chicken meat now enjoy.

Yours Faithfully

Rob Kestel

Submission from Terrigal Farm

The submission is from Laurence Edward Carter President Baiada Growers Western Australia Junior Vic President W.A Broiler Growers Association (Inc) & Janet Colleen Carter Terrigal Farm 358 Taylor Road Forrestdale W.A. 6112

We Commenced Poultry Farming June 2004 6 years.

The last upgrade to tunnel ventilation at Terrigal was complete December 2009 farm value \$5m (Purchase price June 2004 \$1.61m) (Three stages of upgrade total \$3.39m)

Janet and I researched the Chicken Meat Industry for two years prior to purchase in 2004. Our business model was to choose a business we could grow over a five year period and then incorporate our son Damian as Manager ultimately long term Farming. On the 1st July this year our son starts working in the family business. Our choice for a business vehicle was well researched. With sufficient capital investment and succession planning we feel we have made the right choice. Poultry is a stable food requirement with a long future. The regulations applied to the industry was an attraction from the outset. The strict growing / bio-security procedures required was a consideration in our choice for a business. The regulations were seen as security for our family to invest \$5m into capital that has no short to medium term alternative use (Poultry sheds).

In my position President Baiada Growers Western Australia Junior Vic President W.A Broiler Growers Association (Inc) I can say during my term of office there has always been an amicable decision making process between the Growers association and the processor. This is achieved by the Chicken Meat Industry Committee and the requirements for all parties under the Chicken Meat Industry Regulations. The process allows for growers to review their capital and operating costs and present these to the CMIC for negotiation with the processor which still has the mechanism to allow the processor to incorporate cost factors. In my six years of growing the gazetted fee from the notional model has never been directly passed on to the processor. On each review there has been a negotiated discount benefit to the processor.

The system allows for the confidence of growers to “continue” to invest in the industry for a safe product from “breeder farm to plate”.

There have been a number of times that the Chicken Meat Industry Committee has been engaged to arbitrate between growers and processor. Without this arbitration mechanism there are a large number of growers who could not afford legal representation and would be exposed to grow under conditions that would not support the investment made for a long term return.

The Chicken Meat Industry is not unlike broad acre farming in that 20 years ago 80,000 birds provided for a family business. Today Terrigal grows 260,000 bird, we anticipate we will need to grow 500,000 birds within 10 to 15 years. The industry already has two farms at 500,000 birds or more. The scales of economy will dictate this level of growth. As a grower I need assurance that the investment in the industry has a long term future for “Specific use Capital” .

Western Australia’s market and economic situation bring more pressure upon small business. My son Damian has agreed to work the family business. Damian has since leaving year twelve worked in the earth moving industry. He currently earns in excess of \$100,000 pa, with better offers available from resources projects in northern Western Australia. Without the existence of the Chicken Meat Industry Act 1977 I

would not have invested in this industry. Without the Chicken Meat Industry Act 1977 being renewed why would the next generation want to take a significant pay cut to enter an industry without a contract and security. The Chicken Meat Industry is unique, it needs a regulated frame work in order for it to grow and provide a safe quality food at an affordable price and be able to continue to grow with the demands of Western Australia.

Regards

Larry Carter

Raintree County

(A Division of Burkelly Holdings Pty Ltd – A.C.N. 084 148 032
as Trustee for the Byatt Family Trust)



08/04/2010

GROWERS ASSOCIATION SUBMISSION for the Continuation of the CHICKEN MEAT INDUSTRY ACT & REGULATIONS

Raintree County is located at 322 Hopeland Road, Serpentine and is owned and run by a family company Burkelly Holdings Pty Ltd of which I, Laurence Byatt am Managing Director.

Raintree County is situated 55 minutes drive from the processing plant, 45 minutes from the hatchery & feed mill and is located in the Serpentine Jarrahdale Shire which is one of the 11 coastal plain shires and also deems itself to be a 'food bowl' shire.

The site is 25 hectares adjoined by another 20 hectares. We have 8 controlled environment sheds registered to house 460,000 broiler chickens, at present we are only placing 448,000 chickens due to a change in profile requirement from the new processor Baiada which is 2.6% below registered & budgeted figures.

Raintree County has been run as a successful broiler farm by our family since 1969. The current farm itself was **purpose built** as a designated broiler farm initially in 1999 with 4 sheds then expanding in 2006 -2008 to the current 8 sheds and has seen the changes in the industry regarding technological advancement, urban encroachment and lifestyle changes.

Raintree County has invested over seven (7) million dollars into this business and premises in the past 30 years as each new integrator took over and demanded new standards. The farm is also operated on World's Best Practise and achieves 100% passes on Baiada SQF standard.

There are 11 family members and 5 employees that are dependents and rely on the income of this farm.

The need for Dispute Resolution specifically related to income and the grow fee is paramount to the fact that Integrators can't cost recover from processing plants as workers are covered by labour laws, can't increase prices to their customers as Western Australia is unfortunate in that we have a duopoly with only the 2 major supermarkets and the easiest target therefore is the contract broiler grower who without the ability to have the option of the Dispute Resolution would be financially disadvantaged or out of business due to the lack of recourse.

We have seen the processor in other states use the contract grower to subsidise their mortgages as has been the case when Steggles sold to Barter 1999 and then Barter to Baiada 2009. As soon as the new processor takes control the "greater efficiency and improved management processes kick in", this usually means that as soon as possible the grower is under pressure to reduce their gross income under the sales pitch of "working together for the long term!" In reality good on farm management processes are challenged due to the pressure of saving a quick "buck" usually to the detriment of the long term well being of a great industry.

The contract broiler grower's ability to access arbitration i.e. The Chicken Meat Industry Committee is vital in maintaining the viability of the industry as a whole in that small business

(growers) are not over shadowed or dictated to by the forces of big business who have either shareholders or their sheer economic size to force their opinions or price control onto. The CMIC enables a section of the primary production industry, who supplies food that is grown to world best standards, has strict bio security systems and disease free for consumers to buy and eat with confidence. It allows for the group to maintain this high standard as soon as the threat to decrease our ability to maintain this standard we are able to get an independent ruling if there us a minor or in some case major dispute. We require an independent arbiter to assist the growers in not eroding the financial benefit or the “Quality and Assurance” that is so earnestly worked for in this industry as opposed to other industries that are fragmented by sheer size, demographics and lack of regulation. Inputs such as electricity don’t increase in this industry by degrees but over 100% at any one time and the ramifications of this increase unless access to an independent arbiter is financial hardship and possible insolvency.

The act gives the opportunity for the industry to provide the best quality at the most cost effective price. All costs that are arrived at by the growers in WA are transparent to the whole community and are based on constant minimum returns.

The processors and retailers costs do not provide this same transparency.

In the 40 year period of operating in the poultry industry the introduction of the act enabled the grower to take the industry forward with good financial management and the confidence due to the security of the Act & Regulations. The financial institutions see the industry as a well managed and regulated industry and therefore has availed the growers the opportunity to access funds at reasonable rates of interest and repayment periods and this fact is evident by the perusal of all of the cost of production documents submitted since the implementation of the act.

The majority of all broiler enterprises are purpose built and therefore have peculiar sets of circumstances that apply when reselling, redeveloping or applying for expansion. Most famers will tell you that unless the Act & Regulations are in place they would either not have purchased their existing business or doubt that they could sell their broiler business on the open market.

It is my opinion that deregulation hasn’t worked in any other industry in a ‘boom & bust’ situation as someone is always left holding the baby and having to dig in trees, drown chicks, shoot animals or dump produce in the river!

Chicken meat is a vital food source that is produced in Western Australia for West Australians within strict guidelines and the Act & Regulations is required for our industry because on a world scale and compared to our eastern seaboard cousins WA is a small producer, and therefore exposed to price manipulation and unfair market forces in the short term to force us to comply until we capitulate.

Yours faithfully

Laurence Byatt
Managing Director
Raintree County
Mobile 0438 252967

Redmond Pty Ltd
Ken and Helen Evans
149 Punrak Road
Serpentine 6125 WA

To Whom It May Concern:

We entered the broiler industry in 1994, when we purchased an existing Register Farm licence and relocated to the Serpentine area. Our farm is a family based operation, employing three family members along with numerous contractors. We are contracted to Baiada Poultry Pty Ltd and produce approximately 320,000 chickens per batch cycle.

Since entering the industry we have noted large changes and cost pressures within the broiler growing community. Costs associated with planning approvals and local government requirements have escalated and demands from processors have added significant costs to our operation. The Act and the arbitration on growing fees through the CMIC gives growers an opportunity to demonstrate how cost pressures, both local and global, are affecting the profitability of the industry and allow a structured avenue for a fair and reasonable growing fee to be achieved.

Specific examples of additional costs recently incurred by Redmond Pty Ltd are

- Significant increases in electricity tariffs
- The construction of a commercial property entrance at total cost to Redmond Pty Ltd as a condition of expansion
- Installation of specific heating equipment as requested by Bartter Enterprises

Recently we have increased the capacity of our operation with a large investment in new shedding and upgrades to existing facilities. We have continually invested in new and innovative technologies to ensure that our operation is of best practice, providing our chickens with the best environment available and to limit the impact on neighbours and the environment. Prior to the commencement of our expansion we undertook visits to a number of farms on the East coast and it was immediately evident that WA possesses the most professional and innovative contract growing facilities.

The Act and Regulations have given us the confidence and the opportunity to secure funds to continue to invest in our industry, without such a facility, large scale expansion and adoption of new technologies and management

practices would not be possible. Unlike other farming operations broiler farms are specific to their intended purpose. We are unable to change crops or rotations to take advantage of alternative markets and therefore are totally dependent on the profitability and survival of our local industry.

In order for us to continue to invest in our operation we require the ability to borrow additional funds. In order to secure funding we require

- A continuation of our contracts to ensure that financial institutions have the confidence to continue to support the industry with available funds
- Access to arbitration through the Chicken Meat Industry Committee, giving the growers and processors the ability to discuss differences and arrive at a decision based on the facts.
- A growing fee that is correlated with local costs of production, allowing budgets and financial hurdles to be achieved.

We strongly believe that for the industry to maintain best management practices the Act needs to be retained. Without the support that the Act currently provides operations such as ours would struggle to continue to adopt new technology and operate as a best practice system.

Yours Sincerely

Ken and Helen Evans
Redmond Pty Ltd

BIG COUNTRY (AUSTRALIA) PTY LTD

TRADING AS BOOKER FARM

101 King Rd OAKFORD 6121

7th March 2010

GROWERS ASSOCIATION SUBMISSION for the Continuation of the CHICKEN MEAT INDUSTRY ACT & REGULATIONS

Dear Len

Booker Farm is located at 101 King Rd, Oakford and is owned and run by family company Big Country (Australia) Pty Ltd of which I, Colleen Broad am a director. Booker Farm is situated 35 minutes drive from the processing plant, 30 minutes from the hatchery & feed mill and is located in the Serpentine Jarrahdale Shire which is one of the 11 coastal plain shires and also deems itself to be a 'food bowl' shire.

The site is 4.2 hectares or 10 acres with 5 convection sheds registered to house 120,000 broiler chickens, at present due to integrator edicts we are only placing 106,000 chickens. 11.6% below registered & budgeted figures.

Booker Farm has been run as a successful broiler farm by this company since 1996. (14 years under present ownership). The farm itself was **purpose built** as a designated broiler farm around 1976 or thereabouts and has seen the changes in the

industry regarding technological advancement and urban encroachment and lifestyle changes.

Big Country (Australia) Pty Ltd has invested 2.7 million dollars into this business and premises in the 14 years as each new integrator took over and demanded new standards, without actually converting to controlled environment. The farm is also operated on World's Best Practise and achieves 100% passes on Biaida SQF standard, the last on site SQF being evaluated March 2010.

There are 5 family members that are dependents and rely on the income of this farm.

The need for Dispute Resolution specifically related to income and the grow fee is paramount to the fact that Integrators can't cost recover from processing plants as workers are covered by labour laws, can't increase prices to their customers as Western Australia is unfortunate in that we have a duopoly with only the 2 major supermarkets and the easiest target therefore is the contact broiler grower who without the ability to have the option of the Dispute Resolution would be financially disadvantaged or out of business due to the lack of recourse.

The processor uses the contract grower to subsidise their mortgage as has been the case when Steggle's sold to Barter (date?) and then Barter to Biaida(2009). As soon as the new processor takes control the cost cutting starts, growers forced out, density drops, grow-on days are pushed out and measures are taken to claw back any advance the grower has made to expediate the repayment of the integrators huge loans.

The contract broiler grower's ability to access arbitration ie The Chicken Meat Industry Council is vital in maintaining the viability

of the industry as a whole in that small business (growers) are not over shadowed or dictated to by the forces of big business who have either shareholders or their sheer economic size to force their opinions or price control onto. The CMIC enables a section of the primary production industry who supplies food that is grown to world standards, has strict bio security systems and disease free for consumers to buy and eat with confidence. It allows for the group to maintain this high standard as soon as the threat of decrease in COP or return per bird is flagged and insisted upon by an integrator. We require an independent arbiter to assist the growers in not eroding the financial benefit or the QA that is so earnestly worked for in this industry as opposed to other industries that are fragmented by sheer size, demographics and lack of regulation. Inputs such as electricity don't increase in this industry by degrees but by 136% (as is Booker Farm case) at any one time and the ramifications of this increase unless access to an independent arbiter is financial hardship and possible insolvency.

Domination of 'big business' over smaller company and family owned business is fairly evident in this type of intensive primary production and the fact that Western Australia is progressive enough to keep the Chicken Meat Industry Act & Regulation says a lot for the efforts of the WABGA and the successive state governments. Integrators can afford to avail themselves of individual legal representation or the threat thereof, growers only comfort for 'restitution or fairness' is the access to the CMIC through the Chicken Meat Industry Act & Regulation.

In the 14 year period of owning Booker Farm the board's decision to borrow funds to keep pace with Integrator's and industry improvements has been based on the fact that we had the ability to repay the loans due to the comfort of the Act & Regulation for the period of time. Our financial institution is well aware that the

broiler industry has this caveat and therefore can be somewhat shielded from outright piracy.

The majority of all broiler enterprises are purpose built and therefore have peculiar sets of circumstances that apply when reselling, redeveloping or applying for expansion. Most famers will tell you that unless the Act & Regulations are in place they would either not have purchased their existing business or doubt that they could sell their broiler business on the open market.

It is my opinion that deregulation hasn't worked in any other industry in a 'boom & bust' situation as someone is always left holding the baby and having to dig in trees, drown chicks, shoot animals or dump produce in the river!

Chicken meat is a vital food source that is produced in Western Australia for West Australians within strict guidelines and the Act & Regulations is required for our industry because on a world scale and compared to our eastern seaboard cousins WA is a small producer, and therefore exposed to price manipulation and unfair market forces in the short term to force us to comply until we capitulate.

Report and opinion of Colleen Broad
7th March 2010

Nowergup Poultry

348 Gibbs Rd
Nowergup W.A. 6032

12 March, 2010

Name, Russell Wayne Anderson.

I have lived and farmed at 348 Gibbs Rd Nowergup for 40 years in partnership with Mr Ike Raiter and his family.

Nowergup is a rural area about 40 km north of the CBD of Perth. The farm consists of 207 Ha and our farming enterprise consists of 145,000 bird chicken farm, market gardens, turf farm, beef cattle, the farm is staffed by me my wife and two sons who live on the farm with their wives and six children.

We have been contract growing broiler chickens for Ingham's Poultry since 1990, building five chicken sheds over 4years consisting of 9600 sq mtrs at a cost of approximately \$2,000,000, which was a considerable amount for our families to fund at that time.

One of the reasons we felt secure in investing in the poultry industry was the State Government Act and Regulation which was in place, it gave us some comfort of knowing if we ever had a problem with our contractual agreements with Ingham's poultry we could rely on the Act and Regulation to help in resolve any dispute with our processor, particularly in the negotiation of growing fee determinations, which at times over the years we have had some issues in this area.

Another point in the need for arbitration is on the termination clauses in our contract with the processors , that can range from the efficiency clause , such as if a processor deems a grower to be inefficient, being 3 batches under 97.5% the grower may be given a notice of termination, or asked to sell the farm .

If the processing company believes the growers shedding needs upgrading to a certain level or certain equipment needs to be installed, and if this is not done his agreement may be terminated.

I believe the Act and Regulation gives us as individual growers the ability to access arbitration via the Chicken Meat Industry Committee saving us the cost of very expensive legal representation through the courts and may take

● Page 2

March 12, 2010

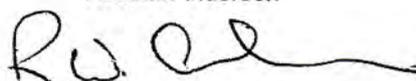
many months to be resolved, and we may lose our farm and the security for our families in the mean time.

I also believe the Act and Regulation has been a factor in prices of chicken meat to the consumer being kept at an affordable range, and the returns to the chicken farmer being kept at reasonable profit level unlike the boom and bust of other agriculture industries, this I think is due mainly to the legislation in the Act and Regulation and the mechanisms of the act in negotiations with the processors, farmers and the members of the Chicken Meat Industry Committee in determining grower fees and contractual agreements etc.

One final point I would like to make is, if our processor decides to terminate our agreement and we decide to sell, we would have nothing to sell if they (the processor) decides they will not give the purchaser of the farm a contract grower agreement, then our chicken farm would be basically worthless as our shedding is only suitable for growing chickens in.

I do hope for the some of reasons outlined that the Chicken Meat Industry Act and Regulations will be reinstated for the security and future as to further invest in our industry in Western Australia.

Russell Anderson

A handwritten signature in black ink, appearing to read 'Russell Anderson', written in a cursive style.

Submission for the retention of the W.A Chicken Meat Industry Act 1977

This is a submission from ER + JF Terace, farm located at 127 Victoria Rd Kenwick, for the retention of the W.A. Chicken Meat Industry ACT 1977.

Initially we purchased the property and chicken meat growing business in 1980 by obtaining bank loans with the knowledge that the business had some security of tenure via the Chicken Meat Industry Act 1977.

Since then we have raised our four children, providing employment for our son and workmen by increasing our borrowings and expanding the farm over the years and have now an invested capital of around \$6 million.

A major expansion of the farm occurred in 2004 which involved replacement and extension of existing sheds and converting them all to tunnel ventilation. This was done at the request and pressure from the processor because the performance from naturally ventilated shedding was deemed by them to be not as good as tunnel ventilation shedding, hence anyone who hadn't converted by July 2010 wouldn't have their chicken growing contracts renewed.

Unfortunately if growers can't expand or convert to tunnel ventilation and contracts aren't renewed there is little use for existing poultry sheds and equipment, unlike other rural industries where land can be used for growing different crops or animals as circumstances change.

Over the years there has been a need for a dispute resolution facility which is offered by the act and regulations, especially related to the growing fees, performance and efficiency criteria as the growers have continually needed to go to the Chicken Meat Industry Act to get adjudication and resolution on increases in running costs and returns on investments and even then the growers have discounted the growing fee to help obtain an agreement with the processors.

Nationally as the number of processors have diminished due to takeovers (eg. Steggels by Bartter and Bartter by Baiada) because there is no alternative processor to grow for and when disputes arise, as has happened in NSW, growers have then had to go to court to get adjudication.

There is also a need for immediate mediation and arbitration implementation on issues, as there is no incentive for processors to resolve disputes especially related to the fee increases, density reduction or pool payment systems where processors can regain part of the growing fee. The longer it takes to come to an agreement, than in the meantime then they don't have to pay increases unlike now. Under this scenario there is no place for the growers to go other than a long and costly court action.

The W.A Chicken Meat Industry Act 1977 over the years has given growers in W.A some stability and say in the industry. There is a model farm to base a growing fee, a means to control shed expansion and maintain a high batch rate needed with out which it would be far too risky for us to borrow the large amounts of capital required to expand or enter the industry.

So it is there for more essential than ever to have the security of the W.A Chicken Meat Industry Act and regulations due to the huge costs of modern shedding and sophistication of equipment which is demanded by the processor.

Yours Faithfully

Robert Terace

Growers' Association's Submissions

LANAUBRA FARMS

1. Kyle Alan de Lacy
Managing Director of Lanaubra Farms
259 King Road, Oldbury 6121 WA
2. Lanaubra Farms has been in the Broiler Industry as a Contract Broiler Grower since 1993, a period of 17 years.
3. Lanaubra Farms is family owned and run by the de Lacy family, Bert & Lorraine and Kyle & Sam and 3 children who all live on farm. The Farm has one fulltime employee who also lives on farm with his wife and family.
4. Lanaubra Farms has approximately \$5 Million invested in the Broiler industry.

The de Lacy family company purchased the Broiler farm in 1993 with 4 naturally ventilated tin and wood poultry houses holding 16,000 birds/house (farm size 64,000 birds/batch).

In 1995 Lanaubra Farms built a 100m x 18.5m naturally ventilated steel framed cool room panel poultry house (farm size 94,000 birds/batch).

In 1997 Lanaubra Farms built another 100m x 18.5m naturally ventilated steel framed cool room panel poultry house (farm size 124,000 birds/batch).

In 2000 at the request of the processor Bartter Steggles to convert the farm to controlled environment poultry houses, Lanaubra Farms built two 154.5m x 18.5m controlled environment steel framed cool room panel poultry houses and decommissioned the 4 original naturally ventilated tin and wood poultry houses (farm size 180,000 birds/batch).

In 2007 at the request of Bartter Steggles Lanaubra Farms extended and converted the two 100m x 18.5m naturally ventilated poultry houses (built 1995 & 1997) into 154.5m x 18.5m controlled environment steel framed cool room panel poultry houses (farm size 240,000birds/batch).
5. Lanaubra farms was able to finance and build the farm into a modern contract Broiler grower operation because the Western Australian Chicken Meat Industry Act gives the growers the ability to negotiate a fair contract and price for the entire industry. The banks require the security of a long term contract and fair price negotiations between the growers and the processors before they will provide the finance to build modern contract broiler operations.

A long term contract backed by the Chicken Meat Industry Act allows a family company to borrow enough money to upgrade farm facilities to meet the minimum standards that the processors (Baiada Steggles, Inghams) sets. If these minimum standards are not met the processors can refuse to place chickens and a small family business will fail immediately. In Western Australia the growers have limited options of changing processors in an effort to achieve a better deal with another processor due to the fact there is such a limited number of processors in this state. The contract broiler grower's farm facilities are designed for a very specific purpose which means that a grower has virtually no option to convert the farm to another industry. Therefore without the Chicken Meat Industry Act the contracted growers would be on their own trying to negotiate a fair deal against a very large Eastern states based processing company with little regard for the position of the individual small players in the industry.

The Chicken Meat industry Act has allowed the Western Australian Broiler industry to develop into one that is the envy of the rest of Australia.

PJKeefe & Co,s

I Jeremy Keefe, Director of PJ Keefe & Co. Location: 568 South West Hwy Byford have been in the industry for 10 years. Both my father (Phil) and brother Dudley have both been growing meat birds for 17 years. All of us including our family a total of 10 rely on the farm.

We have invested in excess of \$2,400,000. We see a continuity of contract as essential in protecting our investment.

To have an Act and Regulation in place, it does give you a bit confidence to spend money on improving your farm. In saying that the contracts can still hang in the balance, meaning the Act can only do so much the keep the processor on board.

Any future scope for the facility other than growing of meat birds could only occur if the land was zoned industrial. Maybe the Ag Dept could do some homework for longevity for the chicken sheds, other than growing of chickens.

As long as the Act reflects a realistic view of Broiler Growing in WA. The costs involved in producing chicken nowadays in West Australia are growing all the time. I have a good friend that has just purchased a new truck from NSW to bring back here \$10,000.00 cheaper than dealer here. Why? because its dead over there and booming here, Growers should be aware that all our input prices will be inflated big time if WA booms big again. That's why the Act is vital to our businesses.

Kind Regards

Jeremy Keefe

The P Kyme & Co Unit Trust

P Kyme & Co Pty Ltd A.C.N. 008 918 929
As Trustee For The P Kyme & Co Unit Trust

29 Karoborup Road, CARABOODA WA 6033

Telephone: 08 9407 5033
Facsimile: 08 9407 4466
Mobile: 0419 747 200 (George Kyme)
0419 913 664 (Tom Kyme)

10th March, 2010

P. Kyme & Co Pty Ltd, located at 23 Karoborup Road CARABOODA, has been operating in the Chicken Meat Industry in excess of 30 years. With over \$4 million worth of capital invested in the Industry and 8 family members dependant of the farm, P. Kyme & Co has an immense need for continuity of contract with the Chicken Meat Industry so as to provide the ability for expansions and upgrades of the chicken farm when required.

As there is a significant inability to transfer the use of the chicken farm facilities for any other purpose, the existing Act and Regulations serve to give P. Kyme & Co the confidence and incentive to borrow and further invest in the Industry. The removal of the Act and Regulations would diminish such confidence of P. Kyme & Co.

Furthermore, we feel that there is a significant need for Dispute Resolution specifically related to income and grower fees as well as immediate access to arbitration in order to ensure that decisions made between members of the Industry are fair and equitable.

Submission to the ERC

W McPhail and Sons
526 Gossage Road
Oldbury WA 6121

Phone & Fax (08) 9526014
Mobile: 0428202026

We have been in the Chicken Industry for 45 years. Three families rely on income from our farm and we have invested around \$3,000, 000 in our enterprise.

We need continuity of contract for our income and return on our investment.

It is our opinion that we definitely need dispute resolution related to income and the growing fee.

We also need immediate access to arbitration when the need arises.

The Act and Regulations give us confidence to invest in our industry.

Our sheds cannot be used for any other purpose.

I don't know of any other industry that has improved the quality of its product at a fair price to the consumer.

The orderly marketing protects both the grower and processor. The Processor has a continual supply of the weight of chicken required.

Dear Len,

Please except our submission regarding the continuation of the act and regulation.

Our farm is located at 10 Skeet Road Harrisdale which is in the Armadale Shire. We have been in the chicken meat industry for 35 years. And our farm is currently supporting two families and their children.

We have an investment of approximately 3.5. Million dollars, with still a substantial amount owning.

Therefore there is a definite need for access to arbitration related to the growing fee.

Also it is essential to have a continuation of our contract, for our security as well as dealing with the banks

Regards Brian & Delores Chester

F&J Giovenco

20th March 2010

Dear sir,

Let us introduce ourselves my name is Frank Giovenco and my wife's name is Josephine trading as F&J Giovenco 10 Ashby Street Wanneroo.

We have been in the industry for 45 years, we have a capital investment in the industry of 5 million dollars, three family members attend on the farm operation; because of the great expenditure we must have a 5 years plus 5 years continuous contract. However because occasionally there is dispute between the company and the grower there has to be a resolution relating to the growing fee, there needs to be immediate access to arbitration to the Chicken Meet Industry Committee.

The Chicken Meet Industry Act of 1977 gave us confidence to approach the bank to borrow large amount of money and in turn the bank could lend money in confidence.

The nature and the size of the land required to transfer the use of the facilities for any other purpose is not there.

Because of the attitude of the major retailers Coles, Woolworth, Kentucky Fried Chicken, and McDonald of making greater profit at the expense of the growers and using the threat of import from other Country to achieve their goal we must retain the Chicken Meet Industry Act of 1977.

My believe is that there should be no review of the Chicken Meet Industry Act of 1977 this should be a continuous Act and Regulation similar to the potato marketing board.

Regards

Frank and Josephine Giovenco

ATTACHMENT 2

PRESCRIBED FORM OF AGREEMENT LETTER



Department of Agriculture and Food
Government of Western Australia



Our Ref: 91 0676V3

Mr Len Brajkovich, O.A.M., J.P.
President
WABGA
51 Middle Swan Road
Middle Swan WA 6056

Dear Len,

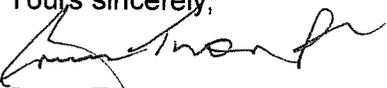
Thank you for your letter of 12 January 2009, enclosing a copy of the Broiler Chicken Growing Contract between individual growers and Bartters Pty Ltd dated 1 July 2008. I understand you have since discussed the matter with Ms Katy Ashforth, the Manger of Legislation at the Department of Agriculture and Food, as I have also done.

You have asked that the Chicken Meat Industry Committee (CMIC) provide some assurance that this contract complies with the *Chicken Meat Industry Act 1977* (CMI Act), in other words that it is "in or to the effect of the prescribed form of agreement" (set out in the First Schedule to the Chicken Meat Industry Act Regulations).

I agree with Ms Ashforth's advice that it is not a specific function of the CMIC to determine whether a contract is "in or to the effect of the prescribed form of agreement" and I do not think it is necessary or useful for the committee to express an opinion on the matter.

I understand that the parties who entered the Bartters' contract (that is, Bartters Pty Ltd and all the growers concerned) regard the contract as one which is in or to the effect of the prescribed form of agreement. The parties entered into the contract with the intention of entering into a contract that is in or to the effect of the prescribed form of agreement and for present purposes that is sufficient to establish the applicability of the CMI Act to the parties and the contract.

Yours sincerely,



Bruce Thorpe
Chairman
Chicken Meat Industry Committee
6 February 2009

Chicken - Feb 09.doc

ATTACHMENT 3

CHICKEN MEAT USAGE & ATTITUDE SURVEY



Australian Government
Rural Industries Research and
Development Corporation

Chicken Meat Usage and Attitude Survey

by Colmar Brunton
Pub. No. 09/080



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Chicken Meat Usage and Attitude Survey

Publication No. 09/080
Project No. PRJ-002977

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Researcher Contact Details

Susan Metlege
Colmar Brunton
80 Waterloo Road
NORTH RYDE NSW 2113

Phone: 02 8873 0888
Fax: 02 8873 0999
Email: susan.metlege@cbr.com.au

In submitting this report, the researcher has agreed to RIRDC publishing this material in its edited form.

RIRDC Contact Details

Rural Industries Research and
Development Corporation
Level 2, 15 National Circuit
BARTON ACT 2600

PO Box 4776
KINGSTON ACT 2604

Phone: 02 6271 4100
Fax: 02 6271 4199
Email: rirdc@rirdc.gov.au
Web: <http://www.rirdc.gov.au>

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Australian Government
**Rural Industries Research and
Development Corporation**

Chicken Meat Usage and Attitude Survey

by Colmar Brunton
Pub. No. 09/080



Foreword

This report provides a comprehensive knowledge of current consumer usage and attitudes toward chicken within its comparative set to understand consumer requirements and trends, and to inform industry's decision making and marketing activities.

It is an addition to RIRDC's diverse range of over 1800 research publications and forms part of our Chicken Meat R&D program which aims to support increased sustainability and profitability in the chicken meat industry through focused research and development.

Most of RIRDC's publications are available for viewing, downloading or purchasing online at www.rirdc.gov.au. Purchases can also be made by phoning 1300 634 313.

Peter O'Brien
Managing Director
Rural Industries Research and Development Corporation

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Executive Summary

What the report is about

RIRDC is interested in understanding consumer usage and attitudes towards chicken meat and competing food products. This is important for the industry and will allow for greater management and refinement of its products, practices and especially research and development to better meet consumer expectations. This report contains the findings of a chicken meat usage and attitude study.

Who is the report targeted at?

The report is targeted toward RIRDC and all relevant chicken meat industry partners.

Background

In its Five-Year R&D Plan the RIRDC Chicken Meat Program has identified undertaking regular assessment of consumer perceptions of industry practices and products as a key strategy for meeting the RIRDC Chicken Meat Program goals and as a measurement tool of the industry's marketing, promotional and research programs.

Aims/objectives

The broad aim of the research was to provide RIRDC with a comprehensive knowledge of current consumer usage and attitude of chicken within its competitive set.

Methods used

Colmar Brunton was commissioned to conduct a four stage study of Australian grocery buyers. This involved an online consumer blog, a CATI Scoping of Incidence Survey, Online Usage and Attitudes Survey and an Online Consumer Consumption Diary.

Results/key findings

Chicken and beef continue to dominate consumption in the protein category – however consumption for the category is increasing across the board.

94% of the population are currently open to the consumption of chicken – highest in the category. Chicken and beef each comprise approximately one quarter of main meal proportions eaten within the past month in home, with Lamb and Fish at significantly lower levels.

Chicken consumption frequency as a main meal has *not* significantly changed since 1998 with more than 8 out of 10 main grocery buyers having eaten chicken as a main meal within the past week in home.

Consumption within the past week of Lamb, Fish and Seafood other than fish has increased significantly since 1998 while meals without meat on the other hand have decreased significantly at a national level.

Chicken is primarily purchased as an automatic choice because of its popularity in the household, especially amongst children. It is considered to be a food that can be consumed often, and of value for money. Unlike other players in the market, chicken is not currently strongly associated with any health platforms in the market.

Chicken concerns are prevalent in the market however are not motivating enough for a radical change in purchase behaviour. These issues include antibiotics, the (incorrectly) perceived use of steroids and hormones, animal welfare and safe food handling. At least one quarter of respondents stated that these concerns did not influence they way they shop and buy chicken.

Recommendations

- Chicken requires a central communication/positioning platform.
- It is important to maintain the relevance and visibility of the current motivators for chicken purchase: versatility, liked by children, quick and easy to prepare, and price.
- Communication will be required to overcome the myths associated with chicken such as animal welfare issues, perceived use of hormones and steroids, and an understanding of free-range and organic.
- Australian produced was found to be motivating for chicken purchase.
- Chicken needs to be seen and heard using the most commonly referred to sources that influence meat choices: cookbooks, TV chefs and friends, family and colleagues.
- The most credible sources were considered to be government agencies, nutritionists and dieticians.

1. Introduction

The RIRDC Chicken Meat Program funds research and development relevant to the chicken meat industry nationally. The objective of the Program is, through carefully focused R&D, to support increased sustainability and profitability in the chicken meat industry.

Key goals of the Chicken Meat Program are to:

- understand consumer requirements and trends, and
- inform industry decision making and marketing activities.

In its Five-Year R&D Plan the RIRDC Chicken Meat Program has identified undertaking regular assessment of consumer perceptions of industry practices and products as a key strategy for:

- meeting RIRDC Chicken Meat Program twin goals as above, and
- a measurement tool of the industry's marketing, promotional and research programs.

Understanding consumer usage and attitudes towards chicken meat and competing food products is important for the industry to be able to manage and refine its products and practices to better meet consumer expectations, and therefore to better target its research activities. The last industry wide assessment of consumer usage and attitudes to chicken meat was conducted in

1998. That study was funded by RIRDC. Individual chicken meat producing companies have also undertaken market surveys of chicken meat usage and attitude however, and the most recent of these was in 2006.

The RIRDC Chicken Meat Program therefore commissioned a project to survey the current consumer usage of and attitudes towards chicken meat and of its competitors. Colmar Brunton undertook this project.

The aims of the project were to:

- Gain a comprehensive knowledge of current consumer usage and attitudes of chicken within its competitive set.
- Provide information and benchmarks for RIRDC to:
 - measure the industries marketing, promotional and research programs, and
 - identify any changes in attitudes and usage patterns that have occurred over the past 10 years.
- Empower RIRDC with consumer insights towards increasing share of chicken in the market, in order to drive category growth, by:
 - increasing consumption amongst current users, and
 - targeting lapsed users.

2. Methods

Colmar Brunton was commissioned to conduct a four stage study of Australian grocery buyers:

- Stage 1 was an online consumer blog based on 53 respondents conducted nationally and was used to ensure themes captured in subsequent instruments were contemporary.
- Stage 2 was a CATI Scoping of Incidence Survey based on 801 telephone interviews conducted Australia wide among main grocery buyers aged 18 years and over and nationally representative.
- Stage 3 was an Online Usage & Attitudes Survey based on 1,204 respondents conducted in Sydney and Melbourne among main grocery buyers aged 18 years and over. Data was post weighted to reflect population incidence figures obtained in Stage 2. Quotas were enforced for representation across heavy, medium, light and lapsed chicken users.
- Stage 4 was an Online Consumer Consumption Diary based on 707 respondents who were a subset of respondents from Stage 3, with representation across heavy, medium and light consumers.

All fieldwork was carried out between May–July 2008

3. Results

3.1 Chicken Consumption

Key Findings

- Chicken and beef continue to dominate category consumption.
- Chicken (94%) and beef (92%) are well penetrated in market with the large majority of the population open to consumption. One fifth or more were not open to eating pork, seafood or turkey.
- Within past week, chicken (81%) and beef (80%) consumption were highest in home as a main meal. Lamb (54% c.f. 46%), pork (34% c.f. 29%) and seafood (31% c.f. 27%) have all displayed significant increase since 1998.
- Chicken is most frequently consumed in home as a main meal (2.4 times per week). Heavy chicken users are consuming chicken more than 5 times per week as a main meal in home.

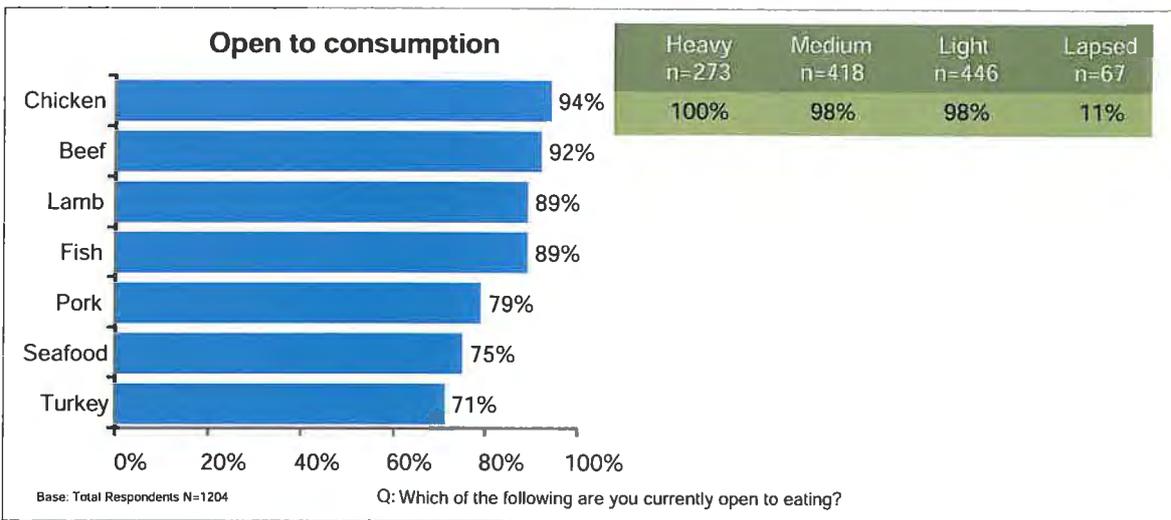


Figure 1. Food types open to eating

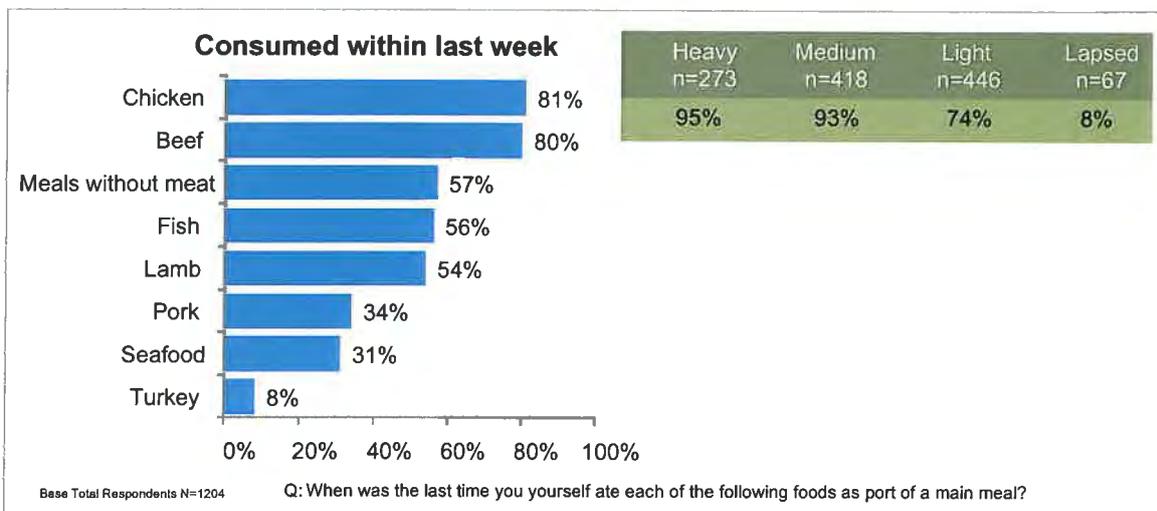


Figure 2. Food types consumed within the last week

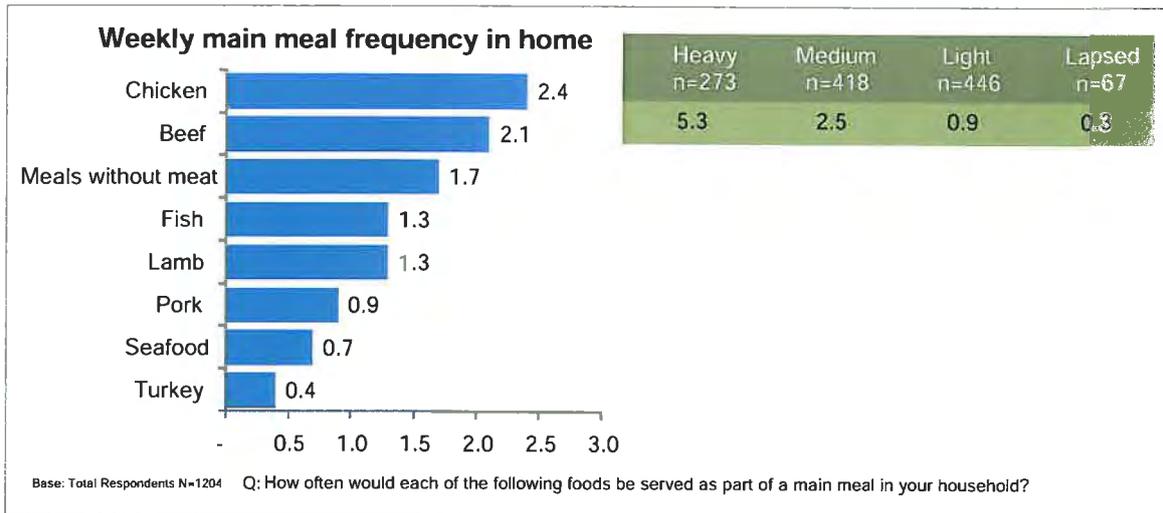


Figure 3. Frequency of consumption as a main meal

3.2 Drivers for Consumption

A driver analysis was conducted to understand key drivers across the category for consumption.

The driver analysis correlated key statements within the category against how often the food is served as part of a main meal in the respondents' household.

Key Findings

- Routine purchase, popularity and value for money are key drivers for chicken consumption, however a health platform is not apparent.
- Key consumption drivers for chicken centre around habitual purchase, popularity – both in household and amongst children – and value for money. Chicken was not primarily consumed for any health benefits as these were owned primarily by other players in the market. When compared with 1998, a consistency is

evident in that chicken is still primarily consumed due to its convenience rather than for dietary concerns.

- Beef, lamb and pork were largely considered good sources of iron, a mans meal, sources of protein, offered a variety of cuts, more likely to be Australian produced and offered a lower risk in getting ill from eating it.
- Fish and seafood were considered a good source of omega 3, lower in cholesterol and to have less 'bad' fats. They were not necessarily considered good value for money or cheap.

NB: Interpreting profiles – the width of the profile is a key indication of how strongly a product is associated with a statement when compared with the competitive set. The chicken consumption profile is split by heavier consumers (more than once a week) and lighter consumers (less than once a week).

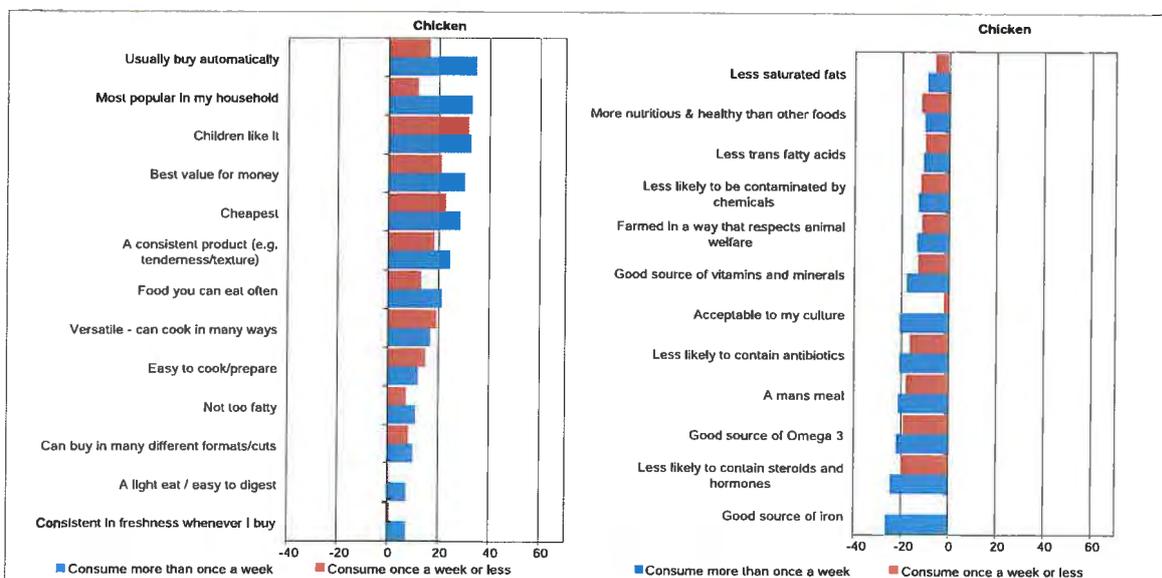


Figure 4. Key drivers for chicken consumption

NB: Interpreting correspondence maps – When interpreting the map, a key consideration is the percentage explained by each axis. This details how much each axis accounts for the differences in the products. In our example the horizontal x-axis accounts for 61.24% of the difference between the brands, and the y-axis explains a further 17.66%. Therefore, the map explains 77.9% of the overall differences between the products. Statements falling on the outer edges of the map indicate a high degree of differentiating power, while those lying closer to the middle have less.

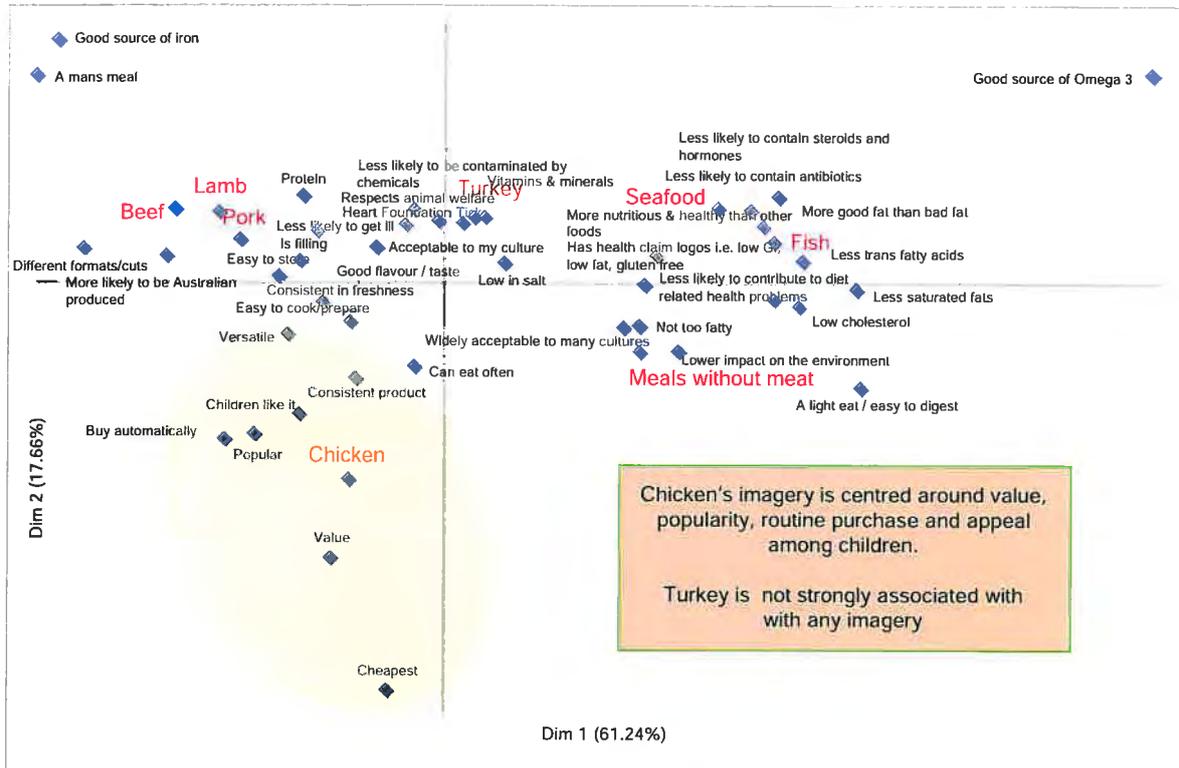


Figure 5. Chicken and turkey in the competitive set

3.3 Purchasers of meat types

Key Findings

- Heavy chicken users also purchased significantly more fish, pork, seafood and turkey per week.
- Heavy chicken users also spent significantly more on seafood, pork and turkey – in addition to chicken.
- Fresh chicken on average was purchased once a week, while other types of meat were purchased once a fortnight.
- Chicken breasts were the most frequently purchased cut of fresh chicken.

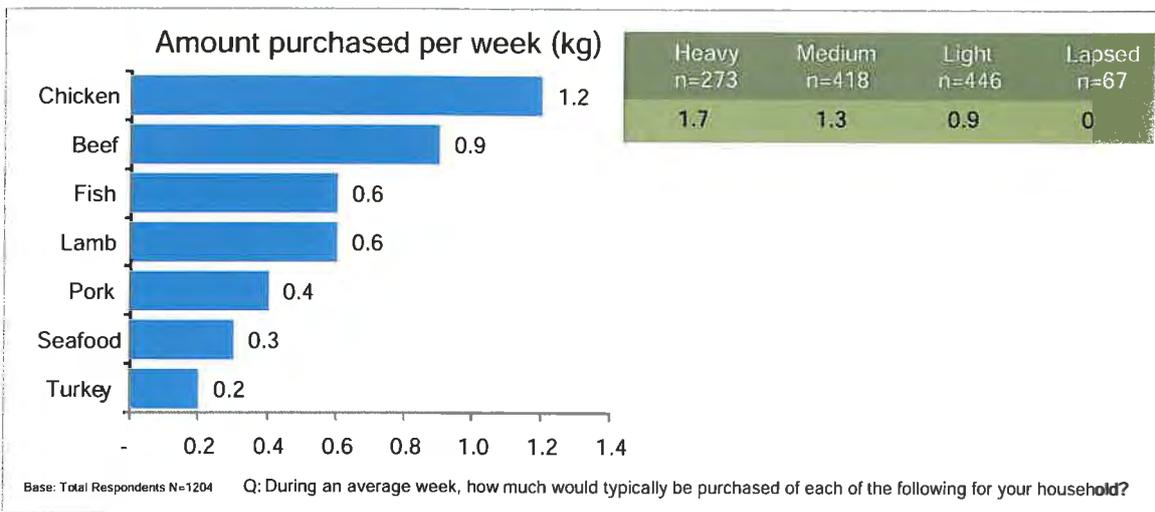


Figure 6. Amount purchased per week (kg)

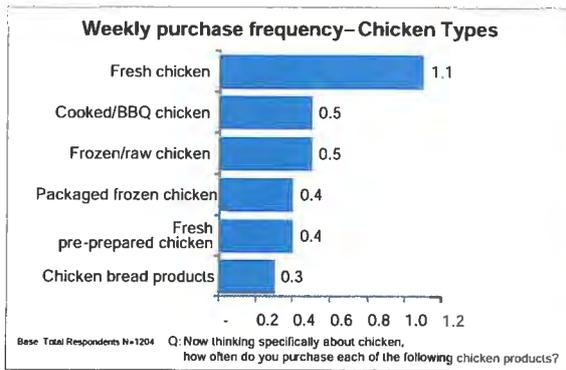


Figure 7. Weekly purchase frequency of chicken types

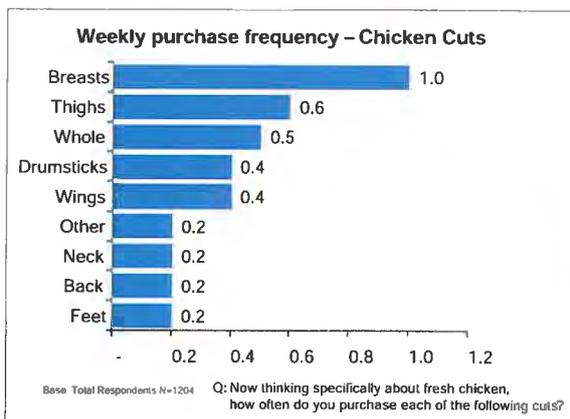


Figure 8. Weekly purchase frequency of chicken cuts

3.4 Specialised chicken products

Key Findings

- Australian produced was most motivating for chicken purchase as an on pack claim with 74% more likely to buy – however all significantly lower amongst lapsed users.

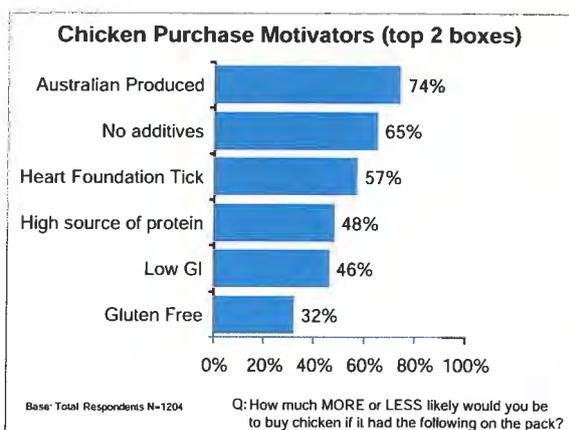


Figure 9. Chicken purchase motivators

4. Recommendations

Chicken requires a central communication/positioning platform just as beef is considered high in protein, lamb as high in iron and being Australian or fish as being high in Omega 3 and low in fat and cholesterol. Chicken has the opportunity based on its health claims to compete on a similar platform.

It is important to maintain the relevance and visibility of the current motivators for chicken purchase. The development of new chicken recipes and modern meal ideas can help reinforce the versatility of chicken. Chicken is quick and easy to prepare, and in a time poor society, this will remain a key purchase driver. With price being a reason chicken is purchased over other meats, ensure value offers are available and that the value for money that chicken offers can be communicated to consumers.

Chicken is currently known to be versatile, quick and easy to prepare and cook. The industry needs to communicate this in a consistent and relevant way.

Concerns over animal welfare and the perceived use of steroids and antibiotics when producing chickens are alleviated through the purchase of specialised chicken products. Purchase interest of specialised chicken increases with self-perceived knowledge of the different types. Interest is high amongst heavy, medium and light consumers. Free-range and organic chicken platforms will need to be communicated carefully as to not increase negative perceptions of regular chicken. In addition, communication programs are required to address regular chicken myths.

Australian produced was found to be motivating for chicken purchase amongst heavy, medium and light consumers. Appealing to Australians emotions by communicating that the purchase of the product 'supports Australian farmers', has potential to impact consumers purchase decision.

Chicken needs to be seen and heard. The most commonly referred to sources that influence meat choices are Cookbooks, TV chefs and friends, family and colleagues. The chicken industry needs to ensure that it possesses a strong presence in these areas. The most credible sources were considered to be government agencies, nutritionists and dieticians. These sources would be useful during times of concern.

Chicken Meat Usage and Attitude Survey

by Colmar Brunton
Pub. No. 09/080

This report provides a comprehensive knowledge of current consumer usage and attitudes toward chicken within its comparative set to understand consumer requirements and trends, and to inform industry's decision making and marketing activities.

It is an addition to RIRDC's diverse range of over 1800 research publications and forms part of our Chicken Meat R&D program which aims to support increased sustainability and profitability in the chicken meat industry through focused research and development.

Most of RIRDC's publications are available for viewing, downloading or purchasing online at www.rirdc.gov.au. Purchases can also be made by phoning 1300 634 313.

www.rirdc.gov.au
1300 634 313

RIRDC • Level 2, 15 National Circuit, Barton ACT 2600 • PO Box 4776 Kingston ACT 2604 • P: 02 6271 4100 • F: 02 6271 4199



ATTACHMENT 4

CROWN SOLICITOR'S OFFICE LETTER

DOWFORD INVESTMENTS PTY LTD
T/A MT BARKER CHICKEN
ABN 17 093 388 446

ADMINISTRATION
103-105 Welshpool Road
Welshpool, Western Australia 6106
Locked Bag 19, Welshpool DC WA 6986
Telephone (+618) 9351 0777
Facsimile (+618) 9356 5460
enquiries@mtbarkerchicken.com.au
Website www.mtbarkerchicken.com.au

SALES
Telephone (+618) 9351 0762
Facsimile (+618) 9356 5460
PRODUCTION
Lot 311 Lake Matilda Road
Kendenup, WA 6323
Telephone (+618) 9851 4321
Facsimile (+618) 9851 4341



02/02/2007

AL SERVICES
- 5 FEB 2007

Your ref: 02/208

Our ref:

Dr SL Wylie
Chicken Meat Industry Committee
Department of Agriculture
Animal Health
Locked Bag 4
Bentley Delivery Centre WA 6983

Dear Dr SL Wylie,

Chicken Meat Industry Act

I refer to your letter dated 10 January 2007.

Can you please provide the basis (precedent or otherwise by reference to a definition in legislation or equivalent) on which your legal opinion bases its definition of intensive housing so that we can obtain further legal advice in regard to the matter.

Furthermore, we do not understand why you refer to submissions made to the Department of Environment in regard to the Environmental Code of Practice for Poultry Farms. The sentence you highlighted does not relate to the manner in which MBC grows its animals furthermore it makes the point that Free Range practice raises its poultry **differently** (our emphasis). You misquote the submission in that it does not state that MBC raises its animals intensively only that free to range farming is considered an intensive industry (the sentence does not specify by whom or in what way). Furthermore, the sentence cannot be viewed out of context: as you well know it related to the environmental impact of chicken operations which, regardless of the manner of operation, would no doubt share many similar issues like type of waste and use of water.

Yours Faithfully

A handwritten signature in black ink, appearing to read 'Mark Rintoul'.

Mark Rintoul
Manager



CROWN SOLICITOR'S OFFICE

Your Ref : JH
Our Ref : CSO 3961-03
Enquiries : Ms D Carey
Telephone No : 9264 1103

Westralia Square
141 St Georges Tce
Perth, Western Australia 6000

GPO Box 883 Perth W.A. 6838
Telephone (08) 9264 1888
Fax (08) 9264 1440, 9264 1442
DX 175

Facsimile No : 9264 1812

Chief Executive Officer
Department of Agriculture
Locked Bag No 4
Bentley Delivery Centre
BENTLEY WA 6983

ATTENTION: JOANNE HILLS

CHICKEN MEAT INDUSTRY ACT - 'INTENSIVE HOUSING CONDITIONS'

I refer to your request dated 1 October 2003 in relation to the above matter, enclosing an email from the Department's Mr Bishop, Secretary of the Chicken Meat Industry Committee. Mr Bishop seeks advice as to whether Mount Barker Chicken ('MBC') is regulated by the *Chicken Meat Industry Act 1977* (WA) ('the Act'). MBC claim that their birds are not grown under intensive housing conditions and therefore MCB is not subject to the Act.

1. Relevant provisions

Section 4 of the Act contains the following definitions:

"grower" means a person who grows chickens in order that the chickens so grown will be sold or otherwise supplied in batches of not less than one thousand chickens to a processor as broiler chickens;

"broiler chicken" means a chicken **which is being or has been grown under intensive housing conditions** specifically for consumption as meat after processing; (emphasis added in both).

Accordingly, if the chickens grown at MBC and then sold or supplied are not chickens which are being or have been grown under 'intensive housing conditions', MBC may well not be regulated by the Act.

2. At the time of enactment, no commercial 'free-range' chicken meat.

As will be clear from the definition of 'grower' above, the Act only applies to growers who are selling or supplying birds in significant commercial quantities (being batches of not less than one thousand birds). Accordingly, it is likely that pet owners or hobby farmers have never fallen within the Act. To my knowledge, the sale or supply of commercial quantities of 'free-range' chicken meat is a relatively recent development of the last few years.

Certainly the Parliamentary debates in Hansard that accompanied the introduction of the Act and its predecessor¹ do not reveal the existence of any growers using other than the standard 'intensive' shedding systems, and accordingly the requirement that growers grow chickens under 'intensive housing conditions' would at that time have been met by all growers who otherwise fell within the definition. Accordingly the definition was not the subject of any debate.

Indeed it appears that the Act was intended initially to benefit all growers of significant quantities of birds, such growers being seen to be in need of legislative protection in their dealings with processors. It is likely that most growers would thus have sought to fall within the Act, rather than, as MBC now does, seek to fall outside it.

The situation appears to be that Parliament did not contemplate the existence of commercial growers of chicken meat other than those that grew 'intensively'. Arguably Parliament simply intended that the Act cover all growers who supplied chickens for meat in batches of not less than one thousand.

However, notwithstanding what may have been the intention of Parliament, this cannot get around the clear words of the statute. If it is intended that growers such as MBC should be unambiguously subject to the Act, legislative amendment may be desirable.

3. 'Intensive housing conditions'

There is no definition of 'intensive housing conditions' in the Act. The most apposite definition of 'intensive' from the Macquarie Dictionary is:

- 4. *Econ.* of or denoting methods designed to increase effectiveness, as, in agriculture, a more thorough tillage, the application of fertilisers, etc., to secure the most from each acre (opposed to extensive).

Clearly the question of whether MBC's chickens are intensively housed will be a question of fact, and without full details of the nature of MBC's housing it is difficult to make a definitive assessment. Arguably, notwithstanding that the birds may be given access to more space to range than in a standard growing operation, they may still be 'intensively housed' if there are large numbers of them kept together. For example, it might be said that MBC's housing conditions are 'intensive' when compared to traditional poultry raising, or indeed to the condition of wild birds.² However, if compared to other growers covered by the Act, or indeed to the total number of chickens in the State (the vast majority of which must surely be grown in 'intensive housing conditions'), MBC's birds may well not be housed intensively. It is not clear which of these comparisons a court would prefer, but there seems to be force in MBC's argument on this point. I doubt whether the fact that MBC's birds may not actually use the extended range provided, due to breeding, behaviour and lack of incentive (as noted by Mr Bishop) would be relevant to determining whether housing was intensive.

¹ *Chicken Meat Industry Committee Act 1975 (WA)*, repealed by the Act.

² Arguably there may be no 'wild' condition for chickens, the species *Gallus gallus* having been so long domesticated.

What appears critical is the point that Mr Bishop makes: that during the first three weeks of life MBC's chickens are "confined to a source of heat". If this confinement is similar to the industry practice as a whole, whereby chicks are confined together in large numbers, close to a heat lamp, then at least for a significant period of their lives, MBC chickens can clearly be said to be under 'intensive housing conditions'. If this is so, then notwithstanding that during the estimated five remaining weeks of its life, such a chicken may not be 'intensively housed', it would still be a chicken "which is being or has been grown under intensive housing conditions".

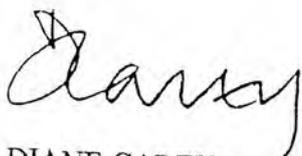
MBC might well argue that the use of the words "or has been" in the definition of broiler chicken was simply to ensure that a chicken that has ceased to grow or 'be grown' (eg after slaughtering) remains within the definition of broiler chicken. This appears unpersuasive, particularly when MBC would be otherwise relying on a close and literal interpretation of the definition.

Conclusion

It would appear, given the significant period of close confinement that MBC chickens experience for the first three weeks, such chickens will fall within the definition of broiler chicken, irrespective of whether their later housing is 'intensive' or not. Accordingly it is likely that MBC is a 'grower' for the purpose of the Act. However, the point is clearly an arguable one. Little can be usefully gleaned as to the intent of Parliament, given that operations such as MBC did not exist at the time the Act was introduced.

If it is desired that the ambiguity as to the application of the Act to growers such as MBC be removed, legislative amendment may be desirable. Removal of the reference to intensive housing conditions might be sufficient, given that the definition of grower (with its reference to batches of not less than one thousand chickens) is such that small growers would not be captured by the Act irrespective of the intensity of their housing.

Please contact me if you wish to discuss this matter further.



DIANE CAREY
ASSISTANT CROWN SOLICITOR

19 November 2003

Bishop, Roland

From: Bishop, Roland
Sent: Wednesday, 1 October 2003 10:00 AM
To: Hills, Joanne
Subject: Free Range Chicken

Joanne

As Secretary of the Chicken Meat Industry Committee I have been requested to seek legal advice as to whether chickens for meat grown under the free range system come under the Chicken Meat Industry Act.

I would appear to hinge on the definition of a broiler chicken, which under Section 4 of the Act says "broiler chicken means a chicken which is being or has been grown under intensive housing conditions specifically for consumption as meat after processing".

Mount Barker Chicken has obtained legal advice that they are not regulated by the Chicken Meat Industry Act because their birds are not grown intensively. However it is the opinion of the Committee that the chickens are grown intensively because they have to be brooded for the first three weeks of life, which means they have to be confined to a source of heat for this period.

Chickens grown under normal intensive conditions for their entire lives are grown to about six weeks of age. Those grown as free range are usually grown for a longer period, probably up to eight weeks of age because their growth rate slows when they are given free range and because this type of market generally demands a larger bird.

In any case it is arguable that their use of range is minimal because broilers are slow and heavy and not given to walk far, particularly if there are barriers such as chain feeders, and because normally the feed and water are provided indoors so there is little incentive for them to go outside.

Your assistance would be appreciated.

Roly Bishop

Department of Agriculture, Locked Bag 4, Bentley Delivery Centre, 6983
Western Australia

Tel.: 08 9368 3566
Fax.: 08 9474 1295
Email: rbishop@agric.wa.gov.au

ATTACHMENT 5

SUMMARY OF CONTENTIOUS ISSUES

SUMMARY OF CONTENTIOUS ISSUES

I believe that the chairman and independent members will be ultimately called to arbitrate on the following matters:

- 1) The investment in land and the rate of return applied to the land.
- 2) Current Cost Accounting

This I believe is possibly the most contentious issue which has previously twice gone to arbitration.

In both instances, the ruling was in favour of the growers. To this end I have taken the liberty of including the salient points from K.H. Lissiman, B.A., B.Comm., F.C.A. (*The Chicken Meat Industry of Western Australia Arbitration Award made under The Chicken Meat Act 1975 and The Arbitration Act 1895-1970*).

The Frequency of Updating – Discussion

Unadjusted historical cost – based depreciation charges and written down values of depreciation fixed assets resulting from these charges have been the figures which up to the present time have been conventionally used in books of account of businesses. They have also been used in the computation of taxable incomes of business.

Due to inflation generally, and rising costs of specific assets, over a long periods of time and more particularly in recent years, these conventional historical cost methods have come under increasing attack. The main reasons are:

- (i) depreciation charges based on historical costs are considered less relevant and less 'real' than those based on current costs of identical or equivalent assets;
- (ii) Depreciation charges based on historical costs will not permit, other things being equal, sufficient funds to be retained to enable the purchase of identical or equivalent assets, when the original assets are retired.
- (iii) Arising from the foregoing, together with the incidence of taxation and distribution of profits, the amounts of capitals of business are being eroded.
- (iv) The recording of book values of assets at their written down historical cost is considered less relevant and less real than recoding them at their written down current costs.

In October 1976, the Institute of Chartered Accountants in Australia And the Australian Society of Accountants issued a Statement of Provisional Accounting Standards on "Current Cost Accounting". This seeks to overcome the problems outlined by substituting the method of Current Cost Accounting for the existing Historical Cost Accounting. In effect assets values and depreciation charges are updated every year under this method.

The timing for the implementation of this Statement of Provisional Accounting Standards is that Current Cost Accounting should be used, by all business entities, in their first accounting periods commencing on or after 1st July 1977 at which time the Current Costs Accounts should be reported as supplementary to the historical costs accounts.

SUMMARY OF CONTENTIOUS ISSUES (Cont)

In the accounting periods commencing on or after the 1st July 1978, the Current Costs accounts should be the principal accounts for external reporting purposes.\

On the taxation side, the Mathews Committee recommended that Company taxable incomes should have two new allowable deductions, one a depreciation adjustment and one a cost of sales adjustment. These recommended adjustments, while calculated differently, would approximate the difference between profits calculated by historical costs methods and profits calculated by current costs methods. The present Government announced in the 1976 budget speech , as a first stage of phasing in to acceptances of the Mathews Committee recommendations., that one half of the costs of sales adjustments would be allowed for companies in their first 1976/77 returns of taxable incomes.

Both of these developments – in accounting and in taxation, indicate the way in which concerned people in the Government, business, the accounting profession and the community are thinking in relation to the same type of problem as is involved in the frequency of updating argument between the two parties in this dispute. General acceptance and approval of current cost accounting in all sectors of the community is still far from being achieved and will require considerable exposure to , an education in, the new methods for this to happen.

For reasons similar to those which have given rise to current cost accounting and to the Mathews Committee tax recommendations, I support the concept of more frequent updating of imputed costs, in this dispute, rather than less frequent updating. I do not fully agree with either parties submission that “replacement is a continuous process”, or that “capital costs are a one time cost” . It is my firm belief that the imputed costs for depreciation charges and interest on capital (value of assets employed) require updating at relatively frequent intervals because the longer the period since the establishment of the base, or updated base, the less the imputed costs are relevant to the current situation, when the value of money is falling and process generally, and prices of the relevant assets are rising.

To add weight to this W.H. Crawford, F.C.A. was asked to arbitrate on the findings of K.H. Lissiman, B.A., B.Comm., F.C.A. These finding were embodied in the Chicken Meat Industry Act regulations under Clause 5 of the Second Schedule.

I have taken the liberty of taking extracts (verbatim) from this submission .

“The Committee has disagreed on the use of current cost accounting in determining the imputed costs.”

“It was interesting and helpful that the submissions from bother the processors and the growers were based on current cost accounting principle. Indicating acceptance of this concept.”

“Interest on capital invested in property other than land. – The treatment of this imputed cost has caused the greatest disagreement between the parties to this dispute.”

“Both processors and growers made submissions to me based on current cost accounting principles and I consider it equitable that this imputed cost be calculated on a basis which acknowledges the effects of inflation”.

SUMMARY OF CONTENTIOUS ISSUES (Cont)

Coopers & Lybrand, in their submission to the Queensland Chicken Growers Association Inc made some very salient points in relation to depreciation and again I quote verbatim from their report:

..An argument exists that by investing the cash flow generated by the annual depreciation charges, the income produced should approximate the backlog over the life of the asset. Such an argument is only valid if sufficient funds can be set aside each year for the specific purpose of replacing assets. To have sufficient funds available for this purpose, it is essential that the return on investment produced by the business be at a level which will allow such funds to be set aside, as well as providing cash flow for debt servicing and distribution to the owner (representing the residual return on his equity investment). If the rate of return cannot achieve this, any surplus funds will by necessity be employed for purposes other than replacement of assets.

It can be seen therefore that the minimum charge for depreciation is that based on replacement values of assets. Where there is not sufficient return on investment to provide the surplus funds , it could be argued that a higher charge is necessary to cover the backlog.

Professor A.H.M. Fels, in his determination to the Victorian Broiler Chicken Industry also toyed with the idea, and I quote;

I gave some thought to the idea of treating assets as new for the determination, and do not dismiss this as out of hand, as an approach that may be considered for the future.

It goes without saying , that I could table numerous opinions from reputable accounting firms that accept Current Cost Accounting as a fait accompli in this day and age.

The processors would be hard pressed to name one industry, including their own where this does not apply. Eg., a forty year old hatchery still charges top dollar for the product coming out of that hatchery, as does their feed mills and breeder farms.

One would concede that the day that the airline industry varies the AIRFAIR according to the age of their aircraft, it would be time to re-assess current cost accounting.

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EXECUTIVE SUMMARY

In accordance with the terms of our Engagement, we have prepared this report to provide an assessment of the current principals used to determine the average price paid by Processors to Growers for broiler chickens. The three principals of Land Values, Current Cost Accounting and Rate of Return, along with the guidelines set out in the Chicken Meat Industry Act Regulations provide a basis for establishing the model on which prices are determined. It is important to consider each principal both independently and in conjunction with one another to determine whether they provide an accurate basis for the current pricing model, in today's climate.

In brief our approach to assessing these three principals has been to consider the investments and returns necessary to start a new broiler farm in today's market. We have taken into account the costs, requirements, restrictions and the rate of return required for a broiler farm to be profitable. We have then applied this theory to the three principals to reach to the following conclusions on the suitability of each.

Current Cost Accounting will continue to be used with a 50% adjustment to replacement costs to account for depreciation. The valuation of land will differ between areas north and south of Perth but both will require a rate of return of 4%. Land in the south, where Bartters farms are located, is currently valued at \$1,200,000-\$1,300,000 and land north, where Inghams farms are located is currently valued at \$550,000-\$600,000. The rate of return on other capital expenditure, eg shedding, equipment and site works will continue to be 7.17%.

In considering these three principals we have also assessed the Farm Model and the current pricing structure. We feel that an important element to note in the whole process of establishing prices, is that the price will essentially be determined by the market. The price that Processors will pay Growers is largely controlled by the prices they receive from buyers, which in today's market is becoming mainly dominated by a small number of large enterprises. Moving into the future we feel that the key to receiving the optimal price will be measures taken to increase productivity, for both Growers and Processors.

Although it is not a requirement of this report we will provide some additional information and recommendations relating to the Model and pricing which we have come across in our research. We hope this information will be helpful to the Chair and Independent Committee members in determining a grower price, and perhaps in the design of an updated Farm Model in the future.

INTRODUCTION

The broiler chicken industry has been operating for many years with pricing determined by the use of a Farm Model. Over time the Farm Model has been updated to meet current market conditions, but has continually been based on the three principals of Land Values, Current Cost Accounting and Rate of Return. While it is our task to review these principals, we are not responsible for determining the actual pricing paid by processors to growers. We are engaged to provide a determination of each principal and the how it should be measured in today's market to reflect commerciality for both Growers and Processors.

CURRENT COST ACCOUNTING

According to Statement of Accounting Practice 1: *Current Cost, in relation to an asset, means its cost measured by reference to the lowest cost at which the gross service potential of that asset could currently be obtained in the normal course of business.* Essentially current cost accounting measures expenses at current or replacement costs in today's market. The dispute between Growers and Processors on this principal is whether these costs are actually being incurred and the variation between new and old broiler farms. For example an older broiler farm will have incurred capital costs many years ago and claimed depreciation back on them and may carry out some expenditure from year to year but it is likely to be a repairs and maintenance deduction. Whereas a newer broiler farm will be incurring capital costs at higher prices and only beginning to claim depreciation on them. Again a balance needs to be reached which reflects a fair value of costs incurred by the 'average' broiler farm.

The current Farm Model is based on imputed costs calculated by 50% of replacement values. This valuation method is modelled on 'written down current cost'. According to SAP1: *The carrying amount of a depreciable asset needs to reflect the remaining service potential of the asset, that is, current cost as determined must be reduced to reflect the already consumed or expired service potential of the asset.* Essentially this involves determining the current/replacement cost and then deducting the accumulation depreciation to show the 'real' value of the asset. In the broiler farming industry the variation between new and old farms, as mentioned above, means that the 'expired service potential' can vary between different Growers. We feel that the current 50% reduction is the best way to overcome this problem. Therefore assets and expenses will continue to be valued at current cost with a 50% discount to allow for accumulated depreciation.

While the valuation of land is addressed separately in this report, we will mention that in terms of Current Cost Accounting and SAP 1 it is treated that *the current cost carrying amount for properties (land) is the price at which they can currently be bought and sold in the market, having regard to their existing condition. There would be no separate calculation of accumulated depreciation, the assumption being that any depreciation is implicitly recognised in the market price.* Therefore our conclusion above that the accounting method used shall be 50% of current costs does not include the land. The valuation of land is determined by the only the current cost in compliance with SAP 1 and detailed in the following section of this report.

Something additional to note is that applying Current Cost Accounting principles and the recommendations of SAP 1 also provides the benefit of compliance with current International Accounting Standards.

LAND

Land represents a major component of the total capital investment which a Grower makes when starting a broiler farm. Therefore the value of this land and the way it is incorporated into the Farm Model and Pricing Structure needs to be carefully assessed to provide a fair valuation for both parties. The Growers make the investment in land and require a return on that investment for the Broiler Farm to be viable. The Processors must therefore pay the rate of return on the land, as determined and incorporated in the price per bird.

The rate of return on land has been maintained at 4% for over 2 decades and this rate has not been a point of argument between Growers and Processors. As both parties feel a rate of return on land of 4% is reasonable we will recommend that this rate remain unchanged.

The issue which is in dispute between Growers and Processors is the value of the land on which the rate of return is calculated. Having spoken to both parties we have established that many of the current broiler farms have been around for a number of years and hence the land on which they reside was purchased many years ago. This brings up the two issues relating to how the land investment should currently be valued. Farm land purchased many years ago was considerably cheaper than in today's booming market and as such Growers who are receiving a rate of return on the current land valuation of \$500,000 are receiving a rate of return above and beyond what they actually paid for the land. Also land purchased many years ago has obviously appreciated over time, especially in recent years, but just because the land a broiler farm is located on is now worth a million dollars does not mean that the Grower should receive a rate of return on the current market value. Once the Grower decides to sell the land they will then receive an additional capital return on the land.

As mentioned previously our approach to this principal has been to assess the value of the land investment, if one was to start a new broiler farm today. This approach is also consistent with the treatment of properties under Current Cost Accounting as mentioned in the previous section of this report. At this point it is important to note the restrictions placed on Growers, both by Processors and government bodies, such as local council and the WA Planning Commission. According to WA Planning Commission Statement of Planning Policy 4.3, new poultry farms must meet the following requirements for approval:

- be located on rural zoned land
- away from priority 1 surface and groundwater catchment areas
- new poultry sheds must meet buffer guidelines, eg no shed within 100m of any boundary, no residential development within 500m
- adequate landscaping to minimise visibility to public upon completion

Other restrictions imposed on broiler farms include:

- minimum land size of 40 hectares
- distance from feed mill must be within approximately 50km
- access to good quality ground water
- accessible by good bitumen roads
- 1000m minimum separation from another poultry farm

The largest restriction imposed on Growers is the distance to the feed mill, i.e. a radius of 50km. With the boom in property development in the past few years it is getting harder and harder to find land within this radius which meets the above mentioned criteria. Basically growers are limited to the small areas north and south, in which to not only find suitable land, but to also obtain approval for poultry farming.

As a result of these restrictions we have assessed the scenario of setting up a broiler farm, either in the Armadale/Serpentine or Gingin Shires, and have contacted local real estate agents to help determine the current market value for land in these areas. There are large differences in prices between the north and the south areas and as such we have developed a price range that accurately reflects each area. We have come to the conclusion that a valuation of land that reflects the current markets, both property and broiler farming, and that will provide a fair return for both Growers and Processors is \$550,000-\$600,000 north of Perth and \$1,200,000-\$1,300,000 south of Perth. Please see the recommendations section for further discussion regarding the differing land values for areas north and south of Perth.

RATE OF RETURN

The third principal incorporated into the pricing model is Rate of Return. As is the case with any business a rate of return on investment must be received in order for the business to be commercial. In the case of a broiler farm a rate of return must be received on capital expenditure items such as shedding, equipment and site works. At this point it is important to note again that the rate of return incorporated into the Farm model is not the only return the farm receives for these capital investments. These items are all depreciated over their effective lives to give the farm a depreciation deduction each year, so essentially the whole expenditure amount is reclaimed. Again the variance between new and old broiler farms comes into effect. Old broiler farms will have fully depreciated a lot of their older capital expenditure, eg shedding and site works so a depreciation deduction will no longer be available to them, whilst newer farms will still be claiming depreciation on such items.

The rate of return which is determined must take into account both ends of the scale but most importantly the rate must be one which allows Growers to continue in business and which reflects the current market. Currently the Rate of Return is calculated by the five year average of the 10 year Commonwealth bond rate plus an industry risk allowance of 1.5%. This results in the current rate of return on shedding, equipment and site works of 7.17%. The industry risk allowance component has been calculated specifically for the broiler farming industry and we feel it is successful in allowing the rate of return to be raised to the required level. Having assessed the capital expenditure components, depreciation rates, profit analysis and the operations of a broiler farm we feel that a rate of return of 7.17 % is accurate in today's market.

CONCLUSION

We have assessed each principal incorporated into the Farm Model and the Pricing Structure and have come to the following conclusions. Current Cost Accounting is the best method to value costs of broiler farming. It meets International Accounting Standards, but more importantly it provides a fair and equitable way of valuing the assets. Current Cost Accounting reflects current market conditions whilst incorporating the concept of depreciation into the valuation to present the 'true' value of assets through the 'service potential' they have remaining.

Land is to be valued strictly at current cost, in accordance with SAP 1 with a rate of return of 4%. Based on the restrictions placed on Growers regarding land we have produced a valuation which reflects what it would cost a new Broiler Farmer to purchase suitable land to start a broiler farm. In current market conditions we feel that land should be valued at \$550,000-\$600,000 and \$1,200,000-\$1,300,000 for north and south of Perth respectively.

The Rate of Return that Growers should receive has been assessed based on current market conditions and the industry in which they operate. The current rate of 7.17% incorporates an Industry Risk Allowance and we feel that this rate is sufficient to provide the returns required by Growers.

Another important point to also remember, in the process of determining prices, is that the Processors can only pay what the market forces will allow them to pay. If growers are to become more productive, e.g. through the installation of tunnel shedding, then it can be said that the Processors must continually look at possible ways to increase productivity in their operations. Also there is no doubt that in the long term farms will need to be larger in size than in the past as this will also lead to productivity increases.

ADDITIONAL INFORMATION/RECOMMENDATIONS

Our assessment of the three principles detailed in this report resulted in an examination also of the Farm Model and current pricing policy used by the Chicken Meat Industry Committee. We did note that there were some inherent problems with establishing a fair grower fee for all parties involved. The main reason for this being the fact that currently only 1 model exists. During our research we came across numerous differences between the two sets of Growers, i.e. Inghams and Bartters. These differences are set out in Appendix 1. We would suggest the Committee considering the development of two Farm Models, better suited to the two separate groups of growers and the possibility of two separate prices negotiated within each Grower/Processor group.

One of the major differences between Inghams and Bartters broiler farms is the value of the land on which they are located. In the assessment of the land valuation principal we provided two sets of figures for the north and south areas because there was too large a variance in land value. Land is a major component of the Farm Model and the determination of pricing, and as such we feel it a key reason why 2 separate Farm Models should be developed.

In this report we also made note of the restrictions imposed by associated parties on broiler farms. The restriction that has the most ability to change and positively affect both Growers and Processors is the 50km radius. While the current restriction is understandable to minimise feed and transport costs, we feel that in response to the property market a consideration should be made to extend the distance. This may allow new broiler farms to find more suitable land, which is easier to get approval for and as the distance from central Perth increases the cost of land should decrease. Also if only one Farm Model is continued to be used it may alleviate the large variance of land values between the two groups of Growers, as the Growers have more freedom of where to locate their farms. If this restriction was relaxed and the above results occurred, the valuation of land in the Farm Model may be able to re-evaluated.

SOURCES OF INFORMATION

- Review of Farm Model by Western Australian Broiler Growers Association (1993,1995,1998, 2002, 2004, 2005)
- Various submissions made by the Processors, Inghams and Bartters
- Various submissions made by the Western Australian Growers Association
- Meetings with Processor and Grower Representatives
- Meeting with Chicken Meat Industry Committee Chair, Peter Smelta
- Discussions with Norman Sudlow regarding Land Valuations
- Australian Bureau of Statistics and Australian Taxation Office Statistics
- W.A. Planning Commission- Statement of Planning Policy 4.3
- Statement of Accounting Practice 1- Current Cost Accounting

Appendix 1

DIFFERENCES BETWEEN INGHAMS AND BARTTERS GROWERS

	INGHAMS	BARTTERS
Average Farm Size (m ²)	10,037	9037
Optimal Farm Size (m ²)	11,288	23,000?
% Tunnel Farming	15%	55%
% Conventional Farms	85%	45%
Batch Turnover (per yr)	5.4	6.2
Birds per m ² provided	20	25.7
Farm Location	North	South
Av Land Price (40HA)	\$550,000-\$600,000	\$1,200,000-\$1,300,000
Tunnel Farming Productivity Increase	20%	20%
Shed Size	2,788 m ²	3,000m ²
Shed density	55,000 birds	65,000 birds

Appendix 2

EXTRACTS FROM - STATEMENT OF ACCOUNTING PRACTICE 1: CURRENT COST ACCOUNTING

Introduction

The objective of CCA is to ensure that, having regard to changes in specific prices, the results and resources of an entity are realistically measured so as to be of maximum value to users.

Definitions

Current cost, in relation to an asset, means its cost measured by reference to the lowest cost at which the gross service potential of that asset could currently be obtained in the normal course of business.

Gross service potential means the total benefit expected to be derived when the asset was first acquired, and also the benefit from any subsequent upgrading.

Written-down current cost, in relation to an asset, means its current cost less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired service potential of the asset

Compatibility with International Accounting Standard IAS 15

Compliance with the recommendations set out in this Statement will ensure compliance with IAS 15 Information Reflecting the Effects of Changing Prices, which requires the disclosure of information reflecting the effects of changing prices on the measurements used by economically significant entities in determining the results of operations and financial position.

Concepts of capital and profit

The determination of profit in most accounting systems depends upon the concept of capital adopted. Under the approach to CCA adopted in the Statement of Accounting Practice, capital is the operating capability of the entity; that is, "the ability of the entity, at any given time, to carry out its activities at the scale determined by its then-existing resources, both monetary and non-monetary". This concept of capital is consistent with acceptance of an entity viewpoint and may be contrasted to other concepts of capital which are based on a proprietary viewpoint.

The concept of capital selected is based on the resources available to the entity and is linked to the capability of those resources to yield service to that entity, that is, their service potential. Thus operating capability is equal to the aggregate utility, to the entity, of the service potential of the resources under the command of the entity, and is not restricted to such of those resources as are financed by a particular source of funds (e.g. shareholders).

Given the above concept of capital, profit may be defined under CCA as the increase in an entity's operating capability over a period, arising other than as a result of raising funds and after allowing for any return or distribution of funds during the period. In other words profit is the amount which could be distributed at the end of a period whilst still maintaining intact operating capability as it existed at the beginning of the period, after due allowance for funds raised, returned or distributed.

Measurement: General

The concepts of capital and profit underlying CCA need to be translated into measured amounts using a basis of measurement which is consistent with those concepts.

Operating capability results from the combination of the service potentials of the entity's resources. These resources, as far as they are measurable in an accounting system, are represented by the amounts attributed to non-monetary assets and to net monetary assets. Funding these resources are equity funds, loan capital and non-monetary liabilities. Appendix I illustrates the relationships between funds employed and resources held.

The service potential of inventories and fixed assets

The service potential of inventories, that is, their economic utility to an entity, is the manufacturing, servicing, and/or merchandising capability which they represent. Each individual line or item comprised in the total inventory can be said to have its own particular utility, depending on its ability to satisfy a particular need connected with the operations of the entity. This ability will be determined by many different factors, including potential use, quality and price.

A characteristic of inventories is that their service potential is given up as they are consumed or sold. This could come about through internal events (for example, the consumption of factory supplies in the course of manufacturing operations), or in external transactions (for example, the sale of a unit of finished product by a manufacturer).

Depreciable assets such as buildings, plant and equipment differ from inventories in that their service potential is consumed or expires progressively over an extended period. The service potential of depreciable assets is dependent on four factors:

- (a) the nature of the service to be derived by the entity from use of the asset;
- (b) the physical characteristics of the asset (which include its capacity);
- (c) the period over which the asset is expected to be used (referred to in this Statement as the useful life of the asset); and
- (d) any proceeds upon sale.

Thus, two assets may provide the same type of service but may differ in their capacity to yield such service; they would be said to each have a different service potential.

The determination of current cost

Ideally, current cost would be determined by reference to the market buying prices as they exist either when a transaction occurs or at balance date, as appropriate. In situations where it is not practical to establish current cost by direct reference to market buying prices, it could often be determined by the application of suitable indexes calculated to reflect changes in specific prices. Care ought to be exercised when indexes are used to ensure that they yield a realistic approximation of current cost.

It is to be noted that the definition of current cost (paragraph 49 of the Statement of Accounting Practice) refers to gross service potential. The implication of this is that CCA is concerned with the market buying prices of new assets and not of second-hand assets unless the second-hand market is the market on which an entity would normally acquire the asset.

Written-down current cost

The carrying amount of a depreciable asset needs to reflect the remaining service potential of the asset, that is, current cost as determined must be reduced to reflect the already consumed or expired service potential of the asset. The resulting net amount is referred to in these Guidance Notes as written-down current cost.

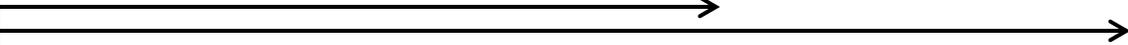
Depreciable assets — simple cases

For relatively non-specialised depreciable assets — for example, motor vehicles, standard-type production machines, farm equipment, office equipment and shop fittings — the (gross) current cost of the service potential of each asset may be established by reference to the buying price of an identical item, or one of equivalent service potential or like utility to the entity.

ATTACHMENT 6

REVIEW OF THE FARM MODEL 2008

**WESTERN AUSTRALIAN
BROILER GROWER ASSOCIATION**



**REVIEW OF FARM MODEL
JULY 2008**

PREPARED AND SUBMITTED TO THE:
CHICKEN MEAT INDUSTRY COMMITTEE

BY:
**L.S.BRAJKOVICH
PRESIDENT OF THE WESTERN AUSTRALIAN
BROILER GROWERS ASSOCIATION**

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OVERVIEW OF THE CHICKEN MEAT INDUSTRY

BRIEF DESCRIPTION OF INDUSTRY

Several distinct operations are involved in the table meat chicken industry. They are:

BASIC BREEDING

Grandparent, or primary stock, is selectively bred from grandparent stock until they reach laying age and mated to produce eggs for the commercial meat chickens. They laying stock is referred to as parent or secondary stock.

MULTIPLICATION FARM CHICKENS

Multiplication farm chickens are reared as progeny from grandparent stock until they reach laying age and mated to produce eggs for the commercial meat chickens. The laying stock is referred to as parent or secondary stock.

INDEPENDENT GROUPS

These breeder farms are operated by the "parent" company of integrated groups. This primarily consists of Ingham's Enterprises and Bartter Enterprise.

HATCHERIES

Eggs from parent stock are incubated; chicks are graded for quality, size and sex; inoculated for Infectious Bronchitis and other diseases; debeaked if desired; then consigned by Special Transport to broiler growers as day old chickens.

BROILER GROWING

Growth of the day old chicks is controlled in purpose built sheds over a production period of seven to eight weeks. The farm supplies management, shedding, equipment, litter, and labour for the rearing of the chickens. The processor provides day old chicks, feed, medication and technical advice. Some broiler growing is undertaken by the Integrated group (Ingham's) in their company owned and operated farm.

There are 39 broiler farms in Western Australia, in addition to one company farm owned and operated by Ingham's.

FEED MANUFACTURE

Feed mixtures, principally of grain, are designed to meet requirements for high growth rates and disease resistance. Feed may be in pellet or crumble

form and is delivered in bulk to growing farms and dispensed mechanically to chickens in the sheds.

FEED MILL COMPANIES

Ingham's	West feeds	Milne Feeds
Wanneroo Road WANNEROO	31 Sevenoaks Street BENTLEY	103 - 105 Welshpool Road WELSHPOOL

TRANSPORTATION OF FEED AND LIVE HAULAGE

All feed is delivered by modern “blow up” units ranging in capacity from 25 to 40 tonne. The leaders in this field are Temple Freightliners and Gascoyne Trading. Live chicken meat haulage is by way of plastic crate or aluminium modules handled by specialised forklift equipment.

PROCESSING

Chickens are taken directly from the growing farms to the processing line where they are slaughtered, plucked, cleaned, cooled and graded. They are then packaged and frozen or chilled, or subjected to further processing into various products prior to packaging and sale to distributors. The major processors fall in line with that of the hatcheries and the growers:

- Ingham's -
- Steggles Bartter - Festive Foods
- Mount Barker Free Range Poultry
- Finesse Poultry (Bunbury)
- Prestige Poultry

STRUCTURE OF THE INDUSTRY

Other than in the growing sector, the principal participants in the industry are firms affiliated with the corporate groups namely:

- Ingham's
- Bartter - Festive Foods

OPERATIONS OF A TYPICAL BROILER FARM

Birds are introduced as day old chicks and reared to an age between 34 and 54 days, when the batch is transported to a processing plant. The young chicks are kept warm generally up to 14 days of age by gas or oil heaters. Water and feed is provided by gravitation or mechanical means to appropriate feeder's pans or water points. The floor of the shed, which is concrete, is covered in deep litter approximately 40 millimetres in depth of wood sawdust, jarrah or pine, or in some cases shavings. Ventilation of the shed is in most instances cross-ventilated and natural convection or air through a controlled ridge. During hot weather, it is necessary to keep the shed at a reasonable low temperature, preferable no more than 26 degrees Celsius, so circulating fans and fine water spraying are utilised to dampen and cool the air. It is essential that these floggers are properly adjusted for if the spray is too heavy, water droplets will reach the dry litter and cause the dry litter (manure) to smell.

Tunnel shedding is now being introduced into Western Australia, enabling higher stocking rates. The move to tunnel shedding appears to be inevitable Australia wide with a push for all non performing farms to be eventually converted to tunnel shedding. Tunnel shedding now constitutes approximately 142,219m² or 34.44% of the industries total square metres.

Feed silos holding in excess of 30 tonnes are filled by blowing air which forces the feed from supply truck to the silos. At the end of the growing period, birds are caught by hand in the sheds, placed into crates, which are in turn positioned by forklifts onto waiting vehicles parked outside the sheds. This catching and transportation process takes place approximately from 6pm to dawn, however '*as of time catching*' is now carried out by one of the major companies, therefore birds are harvested up until 3pm the following day.

Sheds are then clean by removing the deep litter by way of front-end loader to vehicles outside the shed. Market gardeners are in most cases the end use of this litter. This practice is now being banned, not only in Western Australia but Australia in general, as appears the case world-wide. (*West Australian Newspaper March 13, 2002, pp. 29*) power generation being the preferred option.

As of this Review, the situation has reached a critical stage affecting the total Industry. This is mainly due to not only the previous Government but the present Government doing very little to assist the Industry in finding a suitable site to building the necessary EPA Approved Facility to resolve this problem once and for all.

Sheds are cleaned with large mobile industrial sweepers, washed and sprayed with formaldehyde (in the case of Ingham's – Glutaraldehyde) or any other disinfectant deemed appropriate to reduce the risk of disease in preparation for the next batch. With a mortality rate of between 4% and 6% per batch, dead birds are placed in a cool room on farm, then collected approximately 6 days per week and transported to a composting facility.

There is usually a ten day period between batches when the sheds are empty, but as an industry average there are approximately between 5.5 and 6 batches per annum depending upon the market and company. A density of 17.16 birds per metre square of floor space with an additional 15 – 20% stocking density for tunnel shedding applies.

It would appear that the higher terminal age and emphasis on bio security and Food Safety, specifically *Campylobacter* and *Salmonella*, the batch rate is highly unlikely to exceed 5.85 to 6 batches per annum. Again, the Notional Model will be based upon 5.85 batches, leaving it to post gazettal negotiations between each processor and their growers based on the productivity of each processor.

The Chicken Meat Industry Act of 1977 supplants the Chicken Meat Industry Act of 1975. This in turn was amended by the Chicken Meat Industry Amendment Act of 1982. However, the principal Act is now cited as the Chicken Meat Industry Act 1977 - 1982. The Chicken Meat Industry Committee regulates the operation of the chicken meat industry and has on its committee seven voting members as follows:

- The Chairperson - Ministerial appointment.
- Two persons appointed to be Representatives of processors after consultation by the Minister with such body or bodies representing the interest of processors as the Minister determines.
- Two persons appointed to be Representatives of growers after consultation by the Minister with such body or bodies representing the interest of growers as the Minister determines and;
- Two independent persons in addition to the Chairperson.

Chicken Meat Industry Act Regulations, set out pursuant to the Chicken Meat Industry Act of 1977 as a schedule of regulations.

The Act is intended to improve stability in the chicken meat industry and provide for the continuation of the Chicken Meat Industry Committee. The functions of the Committee are essentially to determine the standard price to be paid by processors to growers for broiler chickens, to settle by negotiation disputes arising in the chicken meat industry and lay down criteria to determine if a grower is an "efficient grower" for the purposes of determining a grower's entitlements under agreement with the processor.

The Chicken Meat Industry is subject to various Legislation and Codes; the most significant that affects Poultry Farming Enterprises being:

- The Chicken Meat Industry Act and Regulations
- Exotic Diseases of Animal Act 1993
- Environmental Code of Practice for Poultry Farms in Western Australia

- This particular code is now known as Guidelines for the Environmental Management of Intensive Animal Based Industries - Poultry Farms with direct input from the following Government Agencies:
 - Agriculture Western Australia
 - Chicken Meat Industry of Western Australia
 - Department of environmental Protection
 - WA Poultry Farmers Association
 - Heath Department of Western Australia
- Water and Rivers Commission
- National Animal Welfare Standards for the Chicken Meat Industry
- National Environmental Management Systems for the Meat Chicken Industry
- Code Of Practice For The Welfare Of Animals - No. 2 Domestic Fowls, Miscellaneous Publication No. 3/87, December 1987 (refer Appendix 1).
- Statement of Planning Policy 4.3. Western Australian Planning Commissions Development Control Policy No DC 3.5 Poultry Farms. It upgrades the Policy to a statutory policy and extends to the whole of Western Australia.

It is regrettable that the interpretation of Poultry Policy No 4.3 by Local Government and even the Ministry itself is not in keeping with the original intent and is still causing problems within the Industry, specifically in relation to Urban Encroachment.

REVIEW OF FARM MODEL

PREAMBLE

I have taken the liberty of including the previous pre-ambles of 1995, 1998, 2002 and 2005 as **Attachment A**, which gives an approach taken by the Chicken Meat Industry in Western Australia in the continued effort to ensure that Western Australia not only remains competitive, but adopts a realistic attitude to the fluctuating nature of the Industry when it comes to total competition on a National basis.

Specifically, the Model size has evolved via these reviews from the original 3,900m² progressing in stages at each review to 5,610m², 7,480m², 8,500m², 9,352m² and now to the recommended level of 11,000m² and increase of 17.62%.

On the gazettal of the Notional Model Fee, both Processors will negotiate their individual fees based upon this Notional Model reflecting their individual productivity and model size. This approach is a policy of shared responsibility between both grower and their processor to ensure an outcome that does not put the economical viability of either party at risk.

It would be remiss of me not to say, in today's climate of higher costs for land, labour, materials and energy that it is placing the Chicken Meat Industry of Western Australia under severe duress to remain competitive when compared against the National level. Therefore, it is essential that every effort is made in this review to cushion the impact upon the growing fee and the price of chicken meat in general.

REVIEW OF FARM MODEL

INTRODUCTION

This document reviews and makes recommendations to the Chicken Meat Industry Committee on alterations and amendments to the Notional Farm Model, devised by the Chicken Meat Industry Committee for computing the average price paid to growers.

The cost of production has been calculated by using the recommended 'New Model' with cash and computed costs as previously agreed by the committee.

This review of the model was conducted initially by way of a comprehensive survey of all growers; the participation rate was approximately 90%. Once again every attempt has been taken to reflect the changes both locally and nationally in relation to competition.

As alluded to in my Preamble Western Australia, I believe, leads the nation in this approach, in particular in relation to the 'Model Farm Size'. It is important that both growers and processors alike be aware that the model should and must be a reflection of the average of the industry and can only change, after being endorsed and adopted by the Chicken Meat Industry Committee.

CAPITAL COST / M² OF THE NOTIONAL MODEL

Process

The intention of this exercise is to establish a notional model farm by using the costs of the most economical tunnel farm unit 152 metres x 15.2 metres, in this case 2,310m² (shed/unit), and establish a cost per square metre of a farm, creating a Notional Model of 11,000m² this in turn, will be stocked at the tunnel density of 21.5 birds per m² creating a Notional Model with an annual throughput of 1,317,116 birds.

CAPITAL COST SUMMARY

The Capital Costs for the model are divided into four major components:

1. **Land**
2. **Site works**
3. **Shedding and Equipment**
4. **Sundry Plant**

1. **LAND**

The philosophy in relation to land cost need to reflect the dramatic high capital cost required to establish a New Broiler Farm. The emphasis has to be placed on the words "New Broiler Farm" as distinct from the words "Established Farm". It would be reasonable to assume that any New Farm established in today's climate would inevitably be of a much larger size in total square metres with tunnel configuration and through puts in excess of 500,000 birds plus, this is required to offset the high land costs. This is approximately double that of the recommended Notional Model of 248,368 birds. Prior to dealing with the cost allowance for land, I refer to my previous reviews specifically, July 2002 and July 2005.

In my previous review of July 2002, I alluded to the fact that poultry farms have the potential to impact on the physical and social environment on the surrounding community. Also that "Statement of Planning Policy 5", now renamed Statement of "Planning Policy 4.3 Poultry Farms", would provide guidance on the matters considered by the ministry of planning and local authorities when ruling on various subdivisions and planning applications for a poultry farm and for development in the vicinity of poultry farms.

Regrettably nothing could have been further from the truth, as local government has now hijacked the Policy and are applying their own interpretation on all aspects of it to such a degree that it is now a minefield of appeals and litigation. This to even achieve expansion on an existing farm, let alone build a new complex.

Part of the problem is the fact that poultry farming is no longer 'as of right' in a rural zone as this clause taken from Western Australian Planning Commission, Statement of Planning Policy 4.3 Poultry Farms Policy states:

5.6 Local Planning for Poultry farms

5.6.3 Because of potential for nuisance it is not appropriate to permit poultry farming 'as of right' in the rural zone. New poultry

farms should be classified as a discretionary use in the rural zone or included in a separate Special Use zone and generally is a prohibited use in other zone."

This has strengthened the hand of council who now virtually either reject or impose conditions that are at best draconian, in particular, noise and odour are the platforms used to ensure that the poultry farm is not build within their jurisdiction. Visual impact is now used as a last resort.

One needs to ask, where does this leave the industry in relation to suitable land for future broiler farming?

As demonstrated by this extract from **Attachment B – Cost of Land.**

To fit the necessary criteria laid down for the establishment of a broiler farm, it is necessary that the land be:

- At least 40 ha (100) acres in area
- Approximately 50km from the feed mill, which means it should therefore be in the Chittering, Gingin or Armadale/Serpentine/Byford Shires
- Accessible by good bitumen roads
- Sufficiently well drained for the construction of the necessary buildings
- Large enough so that no shed is within 100 metres from any boundary

The land should also have:

- Access to good quality ground water , preferably with an approved bore license or with the potential for approval
- Rural Zoning with reasonable prospects for State Planning and Council approval
- No residential development within 50 metres
- No rural residential development within 300 metres
- No neighbouring houses within 100 metres of the proposed sheds
- No other poultry farm within 1 km
- Reasonable potential to obtain planning & Building approval from the Government instrumentalities to establish the proposed farm.

It is the final statement, that one needs, *reasonable potential* to obtain Planning & building approval from the Government to establish the

proposed farm that is not only arduous but difficult to predict outcomes prior to purchasing the block.

Looking at the above requirements in more detail demonstrates the difficult task confronted by the grower.

1.1. SIZE OF PROPERTY

It has already been demonstrated that a minimum of 40 hectares (100 acres) is required, and even this has now been deemed by some councils as inadequate to ensure that odour, dust and noise are retained on the Poultry farm property.

1.2. DISTANCE FROM FEED MILL

In dealing with the requirement that new farms be situated no more than 50 kilometres from the feed mill. It is obvious that a cost differential does occur on every batch of meat birds produced and this impost must be borne by the consumer. It is reasonable to state that the relative low costs of land 50 kilometres from feed mill is subsidised by high cost land in close proximity to the feed mill. One could argue that the average cost of land utilised by the Chicken Meat Industry far exceeds the value of the land recommended in the new model. This is now more evident due to the high cost of diesel fuel with cartage contractors imposing 'fuel levies' on all aspects of transport.

1.3. ROADS

It is no secret that Shire Councils may insist upon the upgrading of roads to cater for the increased tonnage and traffic due to the new farm proposal. In many instances, this is prohibited in relation to the future viability of the farm.

1.4. DRAINAGE

Site costs can blow out from that allowed for in the model, as the model assumes that the site is level. Pitfalls occur after purchase such as extensive fill requirements or abnormal drainage problems due to water tables, floodplains, and other necessary elevations to the terrain.

1.5. TOWN PLANNING CONSTRAINTS

The Ministry for Planning and Heritage, Local Shires and various municipal regulations which operate in those districts where farms are located, (or are intended to be located) are now such that they also dictate the land size necessary to comply with their requirements, eg. Buffer zones and in some instances bunding, main roads and side boundaries. Even when working within these parameters, growers are and will continue to be subjected to orchestrated complaints and harassment, Statement of Planning Policy 4.3 for Poultry Farms should have addressed this problem. However, this 'Policy' only applies to the

metropolitan region and is not mandatory on country councils and Town Planning Schemes.

1.6. AVAILABILITY OF WATER

Guaranteed water supply in the first instance is most vital as is its supply for future expansion. This at present is not a policy of the Water Authority allowing you to reserve water for future expansion, the policy is simply 'Use it or Lose it'. It did appear to have been resolved with the advent of transferable water licenses, this is not clear cut as transfers are not permitted in an area where the levels of water is receding in lakes within the vicinity of the farm.

1.7. PROXIMITY TO OTHER POULTRY COMPLEXES

The location of poultry farms with respect to other poultry complexes, be they egg, breeder or meat bird operations, negates a considerable amount of land due to our industry recommendations of a voluntary 1000 metre minimum separation. Quarantine reasons within the industry dictate that poultry growers should not locate their sheds within 1,000 metres of an existing poultry farms unless it is with the approval of their processor. This has now shown to be more than desirable as in other states complaints have now commenced where broiler farms in close proximity to other broiler farms are objecting to the tunnel shedding pumping their exhaust in the direction of existing farms.

Bio security is now more than a buzz word with 'Environmental Management Systems' a key component of the overall approach to bio security on the broiler farm.

1.8. AVAILABILITY OF POWER

The necessary three phase power is usually available but as always there is an up front costs where the power supply has to be extended to the new farm site, plus now there is a major cost up front for the main transformer. Refer to **Attachment C - Site works**.

1.9. TELEPHONE

This is now an essential item as a pager phone system with the ability to be linked to a mobile phone /vibrating beeper is mandatory. Both the shed controller alarm and the stand alone backup alarm must be connected to the phone pager system thus it is essential that a line be available to the property.

1.10. ENVIRONMENTAL CONSTRAINTS

Environmental constraints further decrease the number of available sites, e.g. proximity to water courses, wetlands, houses, effect of noise

levels and visual impact which may decrease the aesthetic value of the area.

1.11. CONFIGURATION OF PROPERTY

Block configurations present some problems, as it is not unusual for the length for the block to be twice the width. Orientation of the sheds is another consideration to be taken into account in relation to wind direction. It is recommended that all units should face east/west, whilst this is not essential it is desirable.

1.12. RECURRENT ENVIRONMENTAL COSTS

Environmental costs and charges on the Australian chicken meat industry have been increasing in recent years. Capital costs, both for growing and processing operations are increasingly being influenced by more stringent and complex environmental regulations at all levels of government (Commonwealth, State and Local) and contemporary community standards, while recurrent environmental costs are impacted similarly. The 'Larkin report', focused on recurrent environmental costs. Capital costs were not measures but it was noted that they appear to be significant in terms of impact on the industry's international competitiveness.

The Larkin Report states that, overall recurrent Environmental Costs account for 2% of industry turnover or \$20 for every \$1,000 of industry turnover. Although these costs may seem small they amount in total to over \$50 million – a significant "bottom line" impact in terms of a highly competitive low margin/high volume business like chicken meat production.

In recent years this has been exacerbated in Western Australia with local government councils' demanding full environmental impact statements on odour, dust and noise, for even the smallest of expansions programs. Tunnel shedding has been targeted in particular in relation to the direction of the exhausts. Even our harvesting of poultry is under attack as are the noises emanating from personal, forklifts and truck movements.

This has led to ongoing legal costs, which are over and above the demanded environmental impact statements. Recent decisions by the Serpentine Council reinforce this attitude.

In keeping with the processors request for split models and growing fees, and taking into account the 'north' and 'south' orientation of the industry; I have obtained guidance from Real-estate agents Morgan Sudlow and Associates on the required land.

The value can hardly be challenged in light of the fact that they are now deemed to be on the conservative side.

1.13. COST OF SUITABLE LAND

As evident by **Attachment B**, I have adopted an average cost of 40 ha of land based on quotations south and north of Perth

The value of the land is as presented by Morgan Ludlow:

Area of Perth	Expected Price	Average Price
North	\$1,200,000 to \$1,300,000	\$1,250,000
South	\$2,000,000 to \$2,200,000	\$2,100,000
Industry Average	\$3,350,000	\$1,675,000

Taking into account all of the above, I have allocated the sum of \$837,500 which represents 50% of the industry average.

1.14. NOTIONAL MODEL SIZE

I have adopted a Notional Model of 11,000 square metres; this is based on the need to ensure that we remain competitive in this State even though it is obvious that of the 39 farms, 28 are actually below this size.

1.15. UNIT SIZE

A notional model size of 2,310 square metres per unit has been adopted, i.e. 15.2 metres x 152 metres. This will achieve the most cost effective model for tunnel shedding, this in turn, will then be applied to create the 'Notional Model Farm'.

1.16. LEGAL FEES

Whilst no allowance has been made for legal fees this is now a fact of life whether it involves maintaining the status quo, expansion to an existing farm or the relocation of a farm. Therefore, this item should be also taken on board as an added cost particularly in relation to the relocation of a farm, sale of a farm and contract negotiation. Therefore, it is reasonable to put an annual allowance of \$1,000 into the sundry item category

1.17. RATE OF RETURN ON LAND

For the purpose of chicken growers, land might be reasonably defined as consisting of:-

- i. the actual land area used for chicken production
- ii. the related site works, roads, storage areas and surrounds
- iii. any dams, land improvements used in chicken production

- iv. any other land necessary for chicken production operations
- v. any office or administration area
- vi. the required buffer zone

Land used for the growers' residential accommodation or for any other agricultural operations has not been included in the current Model. However land for a managers residence is included due to the insistence of processors of a 24/7 attendance on all farms.

The "land" as defined above constitutes an essential part of chicken production –the farm cannot be built on sky-hooks. Without the land, there is no production. It represents a substantial percentage of the assets used in chicken farming, based on the current Model farm cost statement.

Such land requires appropriate zoning by Councils and compliance with any relevant State Government requirements. Thus in a sense the land becomes almost special purpose land since its usage for purposes other than chicken production is constrained, it is therefore have only two uses: -

- i. as an owner operated chicken farm, or
- ii. As a lease to a tenanted chicken farm.

As previously stated in my review of 2005, I believe that a rate of in-excess of 4% should apply to the land. However, unless directed by the Committee, I have left the rate at 4%.

However, we must consider that the unique nature of the land and the features that must be implemented when establishing the land and which may affect its future use mean that a valuation of the rate on this land should be commissioned to establish an appropriate return rate. In my opinion we should consider the possible future use of the land and the potential for loss in value or reduced increases when compared to similar land used for more general purposes.

This could well be a term of reference the next time a review is done, however, in this instance I have continued to use the historical rate of return of 4% on land which in this instance would be difficult to challenge.

2. SITE WORKS

Attachment C shows the basic costs associated with site works; needless to say the escalating costs are attributed to the now larger model. Increase in traffic and conforming to Shire demands.

2.1. ELECTRICAL CONNECTION

An example of the escalating costs associated in upgrading the model: the power supply now needs to be capable of coping with a load of up to 200 amps per phase. This in turn demands a 300 kva transformer with current transformers on the meters. In addition the fact that the Ministry for Planning Poultry Policy 4.3's requirements of 100 metres on all boundaries further adds costs to the initial electrical connection.

This is now dealt with under Site Works.

2.2. WATER, GAS AND RETICULATION

As in previous models these components have been dealt with under capital Works and Sundry Plant.

3. SHEDDING AND EQUIPMENT

Whilst it is acknowledged that values appear to be inflated it should be noted that the following criteria must be apply, considering that the notional model farm is a turnkey project on a vacant block of land and as such one of two procedures would apply; -

3.1. PROJECT MANAGEMENT

Where sub-contract cost plus establishment for the following would be added in: that is, supplied at the owners cost.

- Site Office;
- Toilet facilities
- Power on site;
- Water on site;
- Plans;
- Staff (if any);
- Bank charges;
- Phone; and
- Construction Insurance
- Fly-in contractors from interstate or overseas
- Housing and transport to accommodate same

Management then charges 10 –15% + over and above the total cost. Client takes full risk of any over-run of construction program.

3.2. BUILDING CONTRACT

The builder obtains quotes for all trades and supplies and quotes the client a lump sum for the contract to supply and erect five units complete with workshop including toilet, cool room, workers cottage, generator building and transformer compound, bores, tanks and security fencing.

The builder takes the full risk for cost over runs and meeting the deadlines set by the grower client. In this case he will allow all costs, plus a risk margin plus his profit margin – which would normally be higher than the project management costs – again subject to the amount of risk involved.

Having abandoned this approach as inflationary, I have opted for the actual cost of a tunnel farm and as alluded to in 1.14 this will then be applied to a Notional Model and hence a Notional Gazetted Fee.

The benefit of this approach is that all growers are competing against the Gazetted Fee on the basis of 'birds housed', hence the capacity of tunnel shedding to house more birds per square metre are rewarded by a greater return per square metre.

CAPITAL COST SUMMARY						
DESCRIPTION	JAN 1, 2008			JUL 1, 2008		
	COST	RETURN	DEPN.	COST	RETURN	DEPN.
Land	500,000	20,000	0	837,500	33,500	0
Site Works	303,507	21,488	0	352,210	26,557	0
Shedding & Equip.	2,876,381	101,824	170,535	3,219,028	121,357	176,773
Sundry Plant	490,678	17,370	33,892	649,112	24,472	41,623
Total Capital Cost	4,170,566	160,682	204,427	5,057,851	205,886	218,396
Capital Cost/m²	\$445.95			\$459.80		
Based on model size	9,352 m²			11,000 m²		

3.3. WORKERS COTTAGE/CHATELS

Due to the inherent demand on the modern, present day meat farm and with the demand by processors that there is a 24/7 presence, combined with the isolation of the new farms it is now evident that a workers cottage be included under capital costs and to this end I have allowed \$200,000.

3.4. TOILET FACILITIES

In keeping with the requirements of Occupational Safety and Health Act (1984) the model allows for a toilet. Refer to **Attachment C**.

Now included in the machinery shed structure.

3.5. EXTRA FEED SILO

This prevents the return of excess feed to the mill thus reducing costs plus allows the carry over feed to be stored in hygienic conditions on farms.

3.6. FEED AUGER

Required in the transfer of feed on farm.

3.7. MOBILE FEED BIN

This allows in conjunction with the feed auger and the extra silo to not only transfer excess feed but also to manage the correct location of starter, grower and finisher due to the fact that feed blow ups, at the best of times, inaccurate to the detriment of both grower and processor.

3.8. DEAD BIRD DISPOSAL – COOL ROOM

Dead bird pick up is now standard procedure for all farms in Western Australia. To ensure that the system is maintained and operated at the best possible level with minimum impact by way of disease transmission or odour impact. Thus a cool room has been designated as essential.

3.9. BIO -SECURITY

As alluded to in the Operations of a Typical Broiler Farm, the high degree of Bio-Security achieved in Western Australia continues to form part of our model review highlighting quarantine and hygiene procedures. The focus is now more On-Farm due to the fact that FSANZ (Food Safety Australia New Zealand) states in their draft Policy "Poultry farmers are required to control food safety hazards on farm", specifically:

- Sealed floors.
- Coffered concrete floors and walls.
- Prevent disease entering.
- Prevent reinfection of the incoming flock.
- Bird proofing of all areas in particular walls.
- Adequate attention to vermin control.
- Ensure disposal of all manure off site.

- Ensure all dead birds leave the property.
- Foot baths at all doors to units.
- Hand sanitising unit.
- A water system free of all external contaminates.
- Ensure farm and domestic animals should not enter the units.
- No other poultry such as geese, ducks, turkeys, etc to be kept on the farm.
- Thorough clean and disinfect sheds between each batch.
- Farm visitors should change into clean overalls before entering the sheds.

All indications are that further measures will continue to be placed upon farms to ensure these hygiene standards are met.

RECOMMENDATIONS AND EXPLANATORY NOTE

It is recommended:

That the arbitrated growing fee applies as agreed to birds placed as of 1st of July 2008.

This fee is then applicable to January 1, 2009.

The normal fee review period of January 1 and July 1 continue.

Productivity

Productivity of the Model be updated every six months using retrospective productivity figures of twelve months i.e.:

For January 1, 2009 review, the period in question would be September 30, 2007 – September 30, 2008.

For July 1, 2009 review, the period in question would be March 31, 2008, - March 31, 2007.

Cash Costs

The Industry continue the practice of using known cash costs and relevant indices that close three months prior to the application i.e.:

For January 1, 2009, the closing period is September 30, 2008.

For July 1, 2009, the closing period is March 31, 2008.

The March 2008 quarterly indices are adopted as the base indices for this review.

Model Size

The new model of 11,000 square metres.

The model be reviewed as and when specified in the Act or Regulations.

The new base figures for productivity are:

PRODUCTIVITY MEASURES	
DESCRIPTION	MEASURE
Size Of Model (Square Metres)	11,000
Size Of Model (Square Feet)	118,404
Placement Density (Squared Feet Per Bird)	0.50
Placement Density (Birds Per Square Metre)	21.50
Mortality Rate (% Total Placement)	4.8%
Batch Rate (Per Annum)	5.85
Birds Per Annum Per Model Farm Marketed	1,317,116

It should be noted that it is highly likely that the industry participants will achieve variations to this model in terms of productivity. This then should be adjusted, after consultation between the individual processor and his grower group. Also they may agree to the fee being fixed for 12 months subject only to adjustments for known cash costs increases.

**WESTERN AUSTRALIAN
BROILER GROWER ASSOCIATION**

**REVIEW OF FARM MODEL
JULY 2008**

ATTACHMENT A

**PRE-AMBLE'S OF
1995, 1998, 2002 AND 2005
REVIEWS**

WESTERN AUSTRALIAN BROILER GROWERS ASSOCIATION

PREFACE

REVIEW OF FARM MODEL

This document reviews and makes recommendations to the Chicken Meat Industry Committee on alterations and amendments to the farm model, devised by the Chicken Meat Industry Committee for computing the standard price paid to growers.

The cost of production has been calculated by using the recommended new model with the cash and computed costs as previously agreed to by the committee.

Every attempt has been taken in this review of the model to ensure that the impact on either the growers or processors is minimal in the short or long term, and that the model reflects an adequate value on the land and buildings including equipment to enable industry, banks and institutions to be reasonably satisfied that it is an accurate valuation.

Market forces and projected productivity have also been considered and accordingly the recommendations reflect this approach.

WESTERN AUSTRALIAN BROILER GROWERS ASSOCIATION

PREFACE

REVIEW OF FARM MODEL

This document reviews and makes recommendations to the Chicken Meat Industry Committee on alterations and amendments to the farm model, devised by the Chicken Meat Industry Committee for computing the standard price paid to growers.

The cost of production has been calculated by using the recommended new model with the cash and computed costs as previously agreed to by the committee.

This review of the model was conducted initially by way of a comprehensive survey of all growers. The participation rate was 70 %. Every attempt, once again, has been taken to reflect the changes that will and have been taking place in the industry both locally and nationally in relation to competition and the need to take on board the recommendations of the Australian Chicken Meat Industry International Benchmarking Study conducted by Instate May 1997, which identified the need for all sectors of the industry to look at reducing costs. It is not our role to be critical of the other elements of our industry but to ensure that we concentrate on the area of growing. This has been done.

Every attempt has been taken in this review of the model to ensure that the impact on either the growers or processors is minimal in the short or long term, and that the model reflects an adequate value on the land and buildings including equipment to enable industry, banks and institutions to be reasonably satisfied that it is an accurate valuation. It should also ensure that both growers and land developers have an accurate cost when confronted with the option of relocating the farm to permit a subdivision to take place.

In the interest of stability it is our intention to set aside the bad historical productivity and concentrate on the reality of present times. Market forces and projected productivity have also been considered and accordingly the recommendations reflect this approach. The new model acknowledges the co-operation of both processors not only in achieving a very competitive model but also taking on board an efficiency system that is both competitive and rewarding to the growers that are continually achieving in the area of reducing costs to the industry.

I make the point that the document tabled is in many ways based upon the 1995 Review document. I see little sense in changing the text purely for the sake of change.

REVIEW OF FARM MODEL 2002

This document reviews and makes recommendations to the Chicken Meat Industry Committee on alterations and amendments to the farm model, devised by the Chicken Meat Industry Committee for computing the average price paid to growers.

The cost of production has been calculated by using the recommended 'New Model' with cash and computed costs as previously agreed by the committee.

This review of the model was conducted initially by way of a comprehensive survey of all growers; the participation rate was approximately 70%. Once again every attempt has been taken to reflect the changes both locally and nationally in relation to competition.

Since the last review of the farm model in 1998, significant changes have taken place not only in Western Australia but nationally; in particular the acquisition of the Steggle Group by Bartter. This has brought about changes in company policy, genetic stock and market demands. This in turn has signalled to the growers Australia wide that they too must change direction and accept the challenge of restructuring the industry if they are to remain competitive.

Western Australia, I believe, leads the nation in this approach, in particular in relation to the 'Model Farm Size'. It is important that both grower and processor alike, be aware that the model, ie, tunnel shedding, can only change, after being endorsed and adopted by the Chicken Meat Industry Committee.

Needless to say, that whilst tunnel shedding is deemed as the way of the future, one cannot just write off assets that are only partially depreciated. Tunnel shedding at this stage makes up approximately 16.5% of the registered square metres in Western Australia.

This does not mean that we should not take on board some of the cost saving features of tunnel shedding. However, it would be unrealistic to adopt tunnel shedding as a model at this stage as it would not make sound commercial sense.

We applaud the processors initiative in this area, in particular the approach taken in encouraging amalgamation of smaller, non-viable farms, their continued support on the transfer of good will to accommodate this approach and in granting as and when possible extra expansion whilst making very endeavour to maintain productivity.

In this review we need to take on board the JT Larkin year 2 Report in relation to the value chain research that identifies trends in the chicken meat industry. Again I have concentrated on the growing sector and those aspects of the report that impinge upon it. Therefore I shall make brief reference to the Larkin study during this report.

REVIEW OF FARM MODEL 2005

Preamble

Since the review of the farm model in July 2002, significant changes have taken place nationally, namely because of the Federal Government's push to adopt the Hilmar Review in relation to competition.

It could be argued that the fact that Western Australia was the only State to have its Act and regulations accented to, is a resounding endorsement of a unified approach as an industry to be proactive in all areas, not only in farming but co-operating with all government agencies and local government, for the challenging role of being accepted in the community as an industry that care's about the environment, neighbours and the welfare of the poultry.

The growers have embraced a change of by the major two processors, Ingham's and Bartter, to adopt individual bargaining to various aspects of the model, not only on productivity, but also on the specific requirements in relation to the physical aspects of the units and the size of that company's model farm.

To this end it is proposed that there be, in the first instance, a Model Farm that will establish a "**base**" notional model and hence a growing fee per bird housed. This "model" and "growing fee" will apply to both tunnel and standard units.

In both instances to ensure that competition prevails, all growers both tunnel and standard, will compete in a pool of that groups choosing for the base fee.

Variation to either the tunnel units from the base model will be by agreement between the growers groups and their individual processors.

In summary – there will be a different gazetted fee for each processor, based on the size of that processors model and the productivity of that model. Once established, costed and agreed to, any variation to the physical aspects of that model by any processor – should be in writing, fully costed and immediately paid for by that processor at the next fee adjustment.

**WESTERN AUSTRALIAN
BROILER GROWER ASSOCIATION**

**REVIEW OF FARM MODEL
JULY 2008**

ATTACHMENT B

**COST OF LAND
FOR A MODEL FARM**

12 June 2008

Licensee: Castledale Holdings Pty. Ltd.

A.B.N. 11 096 195 069 A.C.N. 096 195 069

Telephone: (08) 9386 0000

Facsimile: (08) 9386 0001

Email: realty@morgansudlow.com.au

Web: www.morgansudlow.com.au

Mr. L. Brajkovich
Broilers Growers Association
51 Swan Road
MIDDLE SWAN W.A. 6056

Dear Len,

**RE: LAND SUITABLE FOR THE ESTABLISHMENT OF A BROILER FARM
NORTH AND SOUTH OF PERTH.**

Thank you for the request for information and advice regarding the purchase price of land with a view to establishing a broiler farm on the various sites situated both North and South of Perth metropolitan areas.

To fit the necessary criteria laid down for the establishment of such broiler farms, it appears necessary that the land be:

- At least 40 Ha. (100 acres) in area
- Approximately 50 Kms. From the feed mills which means generally in the Gingin or Chittering shires to the North and Serpentine-Jarrahdale or possibly Murray Shires to the South.
- Accessible to good bitumen roads
- Sufficiently well drained for the construction of the necessary buildings
- Topography such that no sheds would be within 100 meters of the boundary.
- Have access to 3 Phase power supply.
- Access to good supply of Potable Water supply, preferably with an approved bore licence
- Rural zoning with the prospect of both Shire and State Planning approval for the construction of the required sheds.
- No residential subdivision within 500 meters, and no Rural Residential within 300 meters.
- No other poultry farm within 1km.

Based upon all of the above then the expected price for such land would be;

NORTH OF PERTH \$ 1,200,000 to \$ 1,300,000.

SOUTH OF PERTH \$ \$ 2,000,000 to \$ 2,200,000 for bare land market worth.

Yours sincerely


Norman Sudlow
Director

**WESTERN AUSTRALIAN
BROILER GROWER ASSOCIATION**

**REVIEW OF FARM MODEL
JULY 2008**

ATTACHMENT C

**COST OF SITE WORKS
FOR A MODEL FARM**

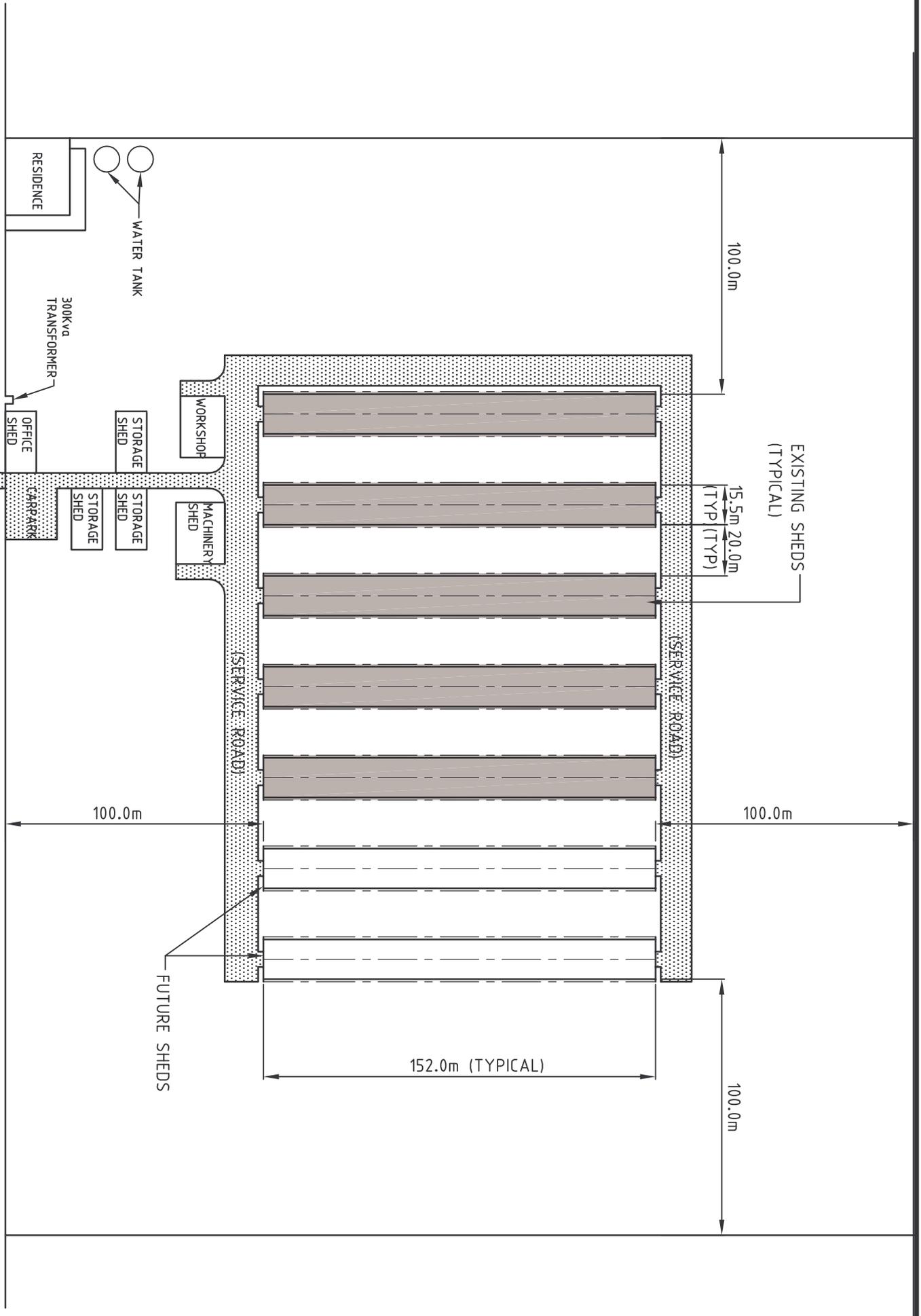
Proj. **BROILER FARM**
 No. **5 + 2 FUTURE EXPANSION SHED MODEL**

24-Jun-08

Item	Description Site works	Qty	Unit	Rate	Amount
1.0	<u>PRELIMINARIES</u>				
1.1	Mobilisation and Management	1	Item	12,500.00	12,500.00
					-
2.0	<u>Earthworks</u>				
2.1	Clearing	7.2	Ha	5,437.50	39,150.00
2.2	Stripping and respreading of topsoil	72,000	m ²	1.27	91,440.00
2.3	Remove rubble and rubbish from site	1	Item	5,000.00	5,000.00
2.4	Cut to fill	6,000	m ³	5.99	35,940.00
2.5	Import clean sand fill for sheds and site structures	4,000	m ³	20.00	80,000.00
2.6	Protection of Trees	1	Item	5,000.00	5,000.00
2.7	Compaction Testing	1	Item	2,000.00	2,000.00
					-
3.0	<u>Roadworks</u>				
3.1	Subgrade compacted to 95%MMDD for min 150mm depth	9,300	m ²	3.95	36,735.00
3.2	Subbase, 150mm limestone compacted to 95%MMDD (Subgrade CBR soaked > 10%)	9,300	m ²	8.26	76,818.00
3.3	Basecourse, 150mm ESL compacted to 95%MMDD	9,300	m ²	8.62	80,166.00
3.4	Pavement Testing	1	Item	2,500.00	2,500.00
3.5	Final trim and site clean up	1	Item	3,000.00	3,000.00
					-
4.0	<u>Drainage</u>				
4.1	Excavate outlet channels to nutrient stripping basin	220	m	20.00	4,400.00
4.2	Driveway culverts supply and install - 375mm dia (Class 2) RCP	70	m	70.70	4,949.00
4.3	Headwalls supply and install - 375mm dia Conc	10	ea	1,100.00	11,000.00
4.4	Construct nutrient stripping basin including planting (size dependant on volume of wash down water and conditions)	1	Item	15,000.00	15,000.00
4.5	Outlet structure to natural water course	1	Item	3,000.00	3,000.00
4.6	Gross pollutant trap	1	ea	32,625.00	32,625.00
					-
5.0	<u>Power</u>				
5.1	Supply of site power (including 300Kva Transformer)	1	Item	60,000.00	60,000.00
					-
5.0	<u>Miscellaneous</u>				
	Survey pickup ascon	1	Item	2,000.00	2,000.00
	Contingency 10%	1	Item	60,322.30	60,322.30
	Engineering Fees 7%	1	Item	42,225.61	42,225.61
	Environmental Impact Statement	1	Item	20,000.00	20,000.00
	Geotechnical Investigation	1	Item	14,000.00	14,000.00
SUB TOTAL SITE WORKS					739,770.91

NOTE:

- 1.0 Quantities based on typical 5 shed + additional 2 shed expansion farm model
- 2.0 Rates are based on current market contract rates, but will need to be proved at time of tender
- 3.0 The effect of GST has NOT been included in these costings.
- 4.0 Costs are based on a Preliminary Layout, detail design needs to be completed for a detailed budget estimate.
- 5.0 Assume development completed in 1 stage
- 6.0 These costs are based on the geotechnical investigation being acceptable. No allowance for treatment of difficult soil condition during development (e.g. limestone rubble, clay/peat
- 7.0 No allowance for treatment of Acid Sulphate Soil (ASS) and dewatering management. This is to be confirmed by client environmental consultant.
- 8.0 Remediation works subject to detailed environmental and Geotechnical site investigation.
- 9.0 Assumes approx 2m fall max across site
- 10.0 Assumes adequate drainage outlet



TYPICAL FARM (7 SHEDS) MINIMUM PROPERTY AREA REQUIRED - 15.08ha

SCALE 1:2000

**WESTERN AUSTRALIAN
BROILER GROWER ASSOCIATION**

**REVIEW OF FARM MODEL
JULY 2008**

ATTACHMENT D

**INDUSTRY STANDARD
MODEL FARM INSURANCE**

Mr L Brajkovich
Brajkovich & Sons
Swan Street
MIDDLE SWAN

27th June 2008

Dear Len,

RE: Model Farm Review

The attached costs are for the figures provided to me, however there should also be attention given to the loss of wages resulting from accidents to the farm owner / manager.

Under a Workers Compensation Policy, for "Employees / Directors" of private companies, the cost, based on a \$95,000. p.a income would be an additional \$4462.15

Further to the above, all but two of the Farmers we insure carry a Business Interruption Policy, which for this Farm would cost as additional \$1691.77

All of these costs are relevant to this Insurance Year and are provided by our long term underwriter, QBE Insurance Limited.

Please contact me with any queries or thoughts you may have on the matter.

Kind Regards,



Ken Bayley
Statewide Insurance Brokers Pty Ltd.

Tel: (08) 9474 4344
Fax: (08) 9474 2080

Email: info@statewideab.com.au
PO Box 240, South Perth WA 6951
78 Mill Point Road, South Perth WA 6151

FARM PROPERTY

<i>Buildings and Contents Sum Insured</i>	\$4,34,945
Premium	\$12,366.99

HOME

<i>Building Sum Insured</i>	\$ 210,000
Premium	\$373.89

PUBLIC LIABILITY

<i>Limit of Liability</i>	\$5,000,000
Premium	\$544.50

MOTOR VEHICLE

<i>Holden/Ford Utility</i>	\$20,000
Premium	\$665.50

MACHINERY BREAKDOWN

<i>5 Tunnel Sheds 200 KVA Alternator Water Bores</i>	
Premium	\$1,981.38

FARM MACHINERY

<i>Tractor with F/end Loader with Fittings</i>	\$49,500
<i>Secondary Tractor</i>	\$15,800
Premium	\$554.33

WORKERS COMPENSATION

<i>Estimated Wages</i>	\$80,000
Premium	\$3757.60

Tel: (08) 9474 4344
Fax: (08) 9474 2030

Email: info@statewideib.com.au
PO Box 240, South Perth WA 6981
78 Mill Point Road, South Perth WA 6151

The total basic Insurance costs total

\$20,244.19

Tel: (08) 9474 4344
Fax: (08) 9474 2080

Email: info@statewideib.net.au
PO Box 240, South Perth WA 6951
78 Mill Point Road, South Perth WA 6151

**WESTERN AUSTRALIAN
BROILER GROWER ASSOCIATION**



**REVIEW OF FARM MODEL
JULY 2008**

ATTACHMENT E

**QUOTATIONS FOR TUNNEL VENTILATED
BROILER SHEDS AND EQUIPMENT**

**WESTERN AUSTRALIAN
BROILER GROWER ASSOCIATION**

**REVIEW OF FARM MODEL
JULY 2008**

ATTACHMENT F

**RECOMMENDED COST OF PRODUCTION
FOR 1ST JULY, 2008**

COST OF PRODUCTION

Industry Notional Model

Based upon fixed tunnel density

Western Australian Broiler Growers Association

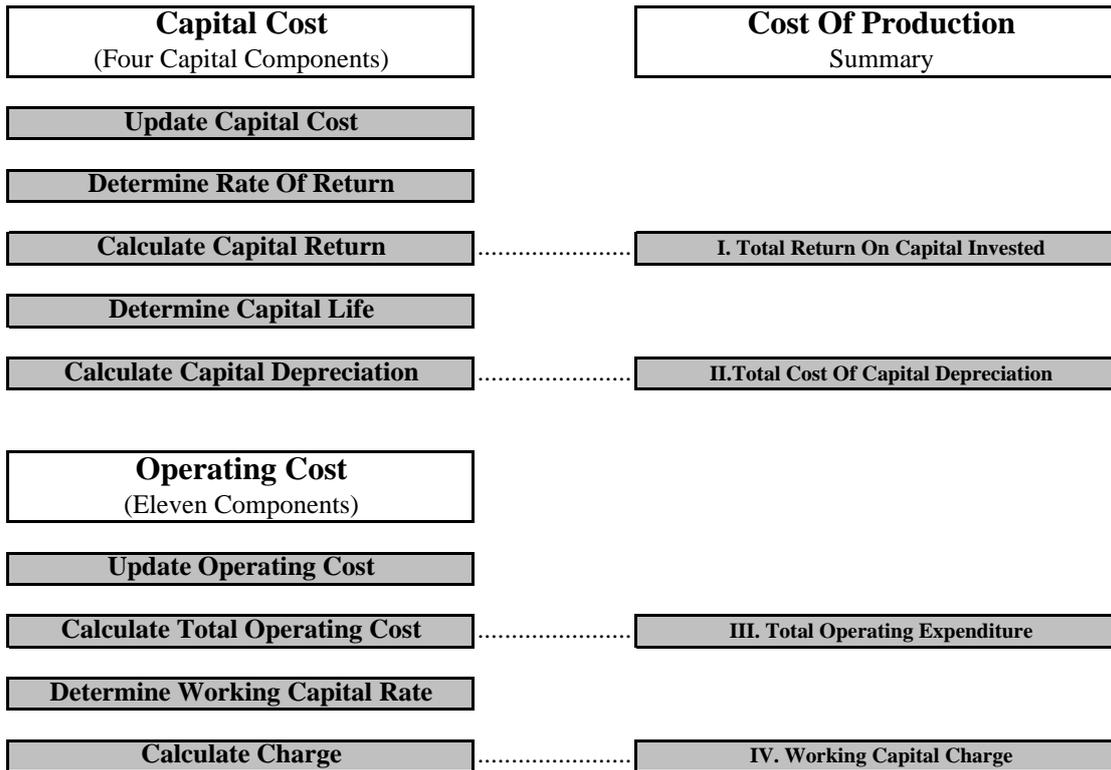
Productivity set at 5.850 batches/year.

July, 2008

PREFACE

The cost of production for the Western Australian Broiler Growers complies with the Act and regulations in relation to the Chicken Meat Industry in Western Australia. The approach adopted adheres to the following pricing structure:

Pricing Structure



By updating structured capital and operating costs for a model farm the cost of production will be determined bi-annually. The standard fee per bird is then derived by applying fixed the average productivity measures to the total cost of production finalized in the format shown above. This is then varied by the individual processor's own productivity measures.

COST OF PRODUCTION - JULY 2008

SUMMARY

COST OF PRODUCTION SUMMARY			
DESCRIPTION	JAN 2008 COST	MOVEMENT	JUL 2008 COST
CAPITAL COST			
Return On Capital Invested	160,682	28.13%	205,886
Capital Depreciation	204,427	6.83%	218,396
Total Capital Cost.....	365,109	16.21%	424,282
OPERATING COST			
Total Operating Cost	379,376	31.99%	500,733
Working Capital Charge	4,093	38.88%	5,684
Total Operating Cost.....	383,469	32.06%	506,417
Total Cost Of Production.....	748,578	24.33%	930,698
Fee Per Bird.....	66.67	5.98%	70.66

Summary

CAPITAL COST

Cost of Production

July, 2008

CAPITAL COST SUMMARY

The capital cost for the model farm is broken down into four major components:

1. Land
2. Site works, including electrical connection
3. Shedding and equipment, and
4. Sundry plant

The current replacement cost, or an agreed value otherwise determined, is calculated on each of these capital items. A rate of return is then applied to provide the first capital based cost for the total cost of production. The second capital based cost is derived by way of depreciation cost on 'shedding and equipment' and 'sundry plant'.

The table below summarizes this process. A more detailed account of procedure follows.

CAPITAL COST SUMMARY						
DESCRIPTION	JAN 1, 2008			JUL 1, 2008		
	COST	RETURN	DEPN.	COST	RETURN	DEPN.
Land	500,000	20,000	0	837,500	33,500	0
Site Works	303,507	21,488	0	352,210	26,557	0
Shedding & Equip.	2,876,381	101,824	170,535	3,219,028	121,357	176,773
Sundry Plant	490,678	17,370	33,892	649,112	24,472	41,623
Total Capital Cost.....	4,170,566	160,682	204,427	5,057,851	205,886	218,396
Capital Cost/m²	\$445.95			\$459.80		
Based on model size	9,352 m²			11,000 m²		

The July 1, 2008 capital-based costs for total cost of production are:

- | | |
|--|----------------|
| I. Total return on capital invested..... | 205,886 |
| II. Total cost of capital depreciation..... | 218,396 |

UPDATED CAPITAL COST

LAND

The land value is based on a weighted average cost of 40 hectares in agreed locations. The value has been fixed at \$837,500 for a period of three years extending to June 30, 2011.

Note: The land value for individual processors i.e. North and South, will alter according to the quotation received.

SITE WORKS

The capital cost of site works is based upon an external quotation, which includes all the major components:

1. Preliminaries
2. Earthworks
3. Roadworks
4. Drainage
5. Services
6. Miscellaneous

See attached detailed quotation.

The base value agreed on July 1, 2008 totalled \$352,210. This value is to be indexed bi-annually by the Perth consumer price index (CPI). The review periods being:

- * July review - based on the March Perth CPI, and
- * January review - based on the September Perth CPI

The next review of the farm model is to be completed by July 1, 2011 as required by the Act and regulations. All indications supported a move to two models, one for tunnel shedding and one for standard shedding.

SITE WORKS - JULY 1, 2008	CPI	Progressive Values
Perth CPI increase/decrease - Jul 2008 (Not applicable - base value)	N/A	\$352,210
Site Works As At July 1, 2008.....		\$352,210

SHEDDING AND EQUIPMENT

This is based upon the quotation for a tunnel farm of 11,000 m². It is the intent to establish a cost per bird housed at a fixed density of 21.5 birds/m². The resulting fee applies to all farms irrespective of the fact that the density of a standard farm is well below this figure. This will ensure that the payment per bird-marketed is set against the most cost-effective method used to grow broilers.

The capital cost of shedding and equipment is based on agreed external quotations. All component values are to be indexed bi-annually. The review periods being:

- * July review - based on the March Perth CPI, and
- * January review - based on the September Perth CPI

The capital cost for shedding and equipment is based upon the costs per square metre for a notional model farm measuring 11,000m², utilising individual shed unit sizes of 2,200m². Whilst this does not reflect the average unit size in the industry, again I have taken this view based on the economics of building the current structures. It should be noted that this is a turn-key project which incorporates approvals, upgrading of power, water reticulation and gas plumbing.

TUNNEL SHEDDING AND EQUIPMENT

SHEDDING AND EQUIPMENT - JULY 1, 2008				
DESCRIPTION	Producer Price	JAN 2008 COST	MOVEMENT (%)*	JUL 2008 COST
	Base Index	9,352m²	Not Applicable	11,000m²
Steelwork/Metalwork/Roof	6427 (Steelwork)	1,560,458	N/A	1,684,748
Insulation	6427 (Non-mineral)	83,752	N/A	98,514
Concrete	6427 (Non-mineral)	314,069	N/A	618,940
Electrical	6427 (Elect/Machinery)	184,877	N/A	188,539
Tunnel Fans	6427 (Elect/Machinery)	89,417	N/A	67,117
Tunnel Roll Seals	6427 (Non-mineral)	N/A	N/A	15,235
Shutters	6427 (Steelwork)	21,066	N/A	42,850
Tunnel Winching Systems	6427 (Elect/Machinery)	48,330	N/A	43,802
Coolpads	6427 (Non-mineral)	96,667	N/A	70,125
Foggers	6427 (Non-mineral)	N/A	N/A	20,650
Stirring Fans	6427 (Elect/Machinery)	N/A	N/A	10,036
Mini Vent Fans	6427 (Elect/Machinery)	22,185	N/A	16,059
Heaters	6427 (Elect/Machinery)	25,362	N/A	26,710
Controllers	6427 (Elect/Machinery)	63,207	N/A	37,264
Feed Fill system	6427 (Elect/Machinery)	25,313	N/A	14,735
Feeders	6427 (Elect/Machinery)	120,347	N/A	106,724
Drinkers	6427 (Non-mineral)	106,774	N/A	96,563
Silos	6427 (Steelwork)	46,145	N/A	57,133
Dosmatics	6427 (Elect/Machinery)	2,712	N/A	3,283
Total		2,902,298		3,219,028
Shedding And Equipment as at July 1, 2008 (11,000m²).....				3,219,028

COST OF PRODUCTION - JULY 2008

SUNDRY PLANT

The capital cost of sundry plant is based on the survey results and quotations agreed March 31, 2008. The total value is to be indexed bi-annually by the Perth CPI; July review (based on the March Perth CPI) and January review based on the September Perth CPI).

SUNDRY PLANT - JULY 1, 2008			11,000m²
DESCRIPTION	JAN 2008 COST	%CHANGE	JUL 2008 COST
Medium Tractor	47,512	N/A	47,512
Small Tractor	15,837	N/A	15,837
Disinfectant Spray Unit	N/A	N/A	25,000
Attachments	2,112	N/A	15,500
Trailers	1,584	N/A	5,400
Mobile Feed Bin	2,112	N/A	3,300
Mobile Auger	2,112	N/A	2,750
Mobile Feed Spreader	2,956	N/A	2,956
Extra Silo	5,279	N/A	5,279
Mower	10,558	N/A	11,000
Fencing	21,116	N/A	26,089
Water Tanks	26,395	N/A	28,000
Coolroom	10,558	N/A	12,000
Machinery Shed / Workshop (inc Toilet)	31,674	N/A	46,000
Bores	36,361	N/A	38,000
Generators 150 - 200KVA	42,233	N/A	40,215
Water Reticulation & Treatment	42,233	N/A	49,685
Gas Reticulation	21,116	N/A	26,089
Motor Vehicles	21,116	N/A	20,000
4 x 4 Motor-bike	N/A	N/A	6,000
Sundry (Office Equipment)	21,116	N/A	22,500
Workers Cottage / Chattels	126,697	N/A	200,000
Total	490,677		649,112
Sundry Plant as at July 1, 2008.....			649,112

RETURN ON CAPITAL INVESTED

DETERMINATION OF RATE OF RETURN

The rate of return on capital invested is applied to each of the capital components in the following format.

- LAND..... A nominal return (rental based) of 4.0% has been determined for a three year period ending June 30, 2011.
- SITE WORKS..... The applicable Commonwealth 10 year bond rate, which has been adjusted for marginal risk, is applied to a reduced (50%) updated capital cost.
- SHEDDING AND EQUIPMENT..... The applicable Commonwealth 10 year bond rate, which has been adjusted for marginal risk, is applied to a reduced (50%) updated capital cost.
- SUNDRY PLANT..... The applicable Commonwealth 10 year bond rate, which has been adjusted for marginal risk, is applied to a reduced (50%) updated capital cost.

The rate of return is calculated as follows (nominal land return aside):

DETERMINATION OF RATE OF RETURN	
Commonwealth bond rate as of 31 March 2008	6.04%
Plus: Industry risk allowance	1.50%
Fully adjusted rate of return applicable to capital invested.....	7.54%

The fully adjusted rate of return applicable to capital invested will be set on July 1, 2008 at 7.54%. This is applied in accordance to the parameters outlined above for each of the four major capital components and that of the National Principles for the broiler industry:

"Rate of return for shedding, equipment and land improvements to be calculated on the basis of the then current bond rate less five year average CPI plus a risk factor as agreed. Interest rate and terms then fixed for three years unless Committee opts for alternate calculation."

APPLICATION TO CAPITAL INVESTED

The table below summarizes the return on capital invested for a model farm of 11,000m².

RETURN ON CAPITAL INVESTED				
DESCRIPTION	JUL 2008 COST	AMMORT. COST	RATE OF RETURN (%)	RATE OF RETURN (\$)
Land	837,500	837,500	4.00%	33,500
Site Works	352,210	352,210	7.54%	26,557
Shedding & Equip.	3,219,028	1,609,514	7.54%	121,357
Sundry Plant	649,112	324,556	7.54%	24,472
Total	5,057,851	3,123,780		205,886
Total Return On Capital Invested As At July 1, 2008.....				205,886

The first capital based cost for the total cost of production is return on capital invested: \$205,886 applicable July 1, 2008.

COST OF PRODUCTION - JULY 2008

DEPRECIATION ON CAPITAL INVESTED

The capital depreciation rates applicable to 'Shedding and Equipment' and 'Sundry Plant' are tabled below. This to be calculated bi-annually based on the updated capital costs at the point of review: January 1 and July 1 of ea year. The capital life of each item listed below is fixed to June 30, 2011 at which time a full review is required.

CAPITAL DEPRECIATION - SHEDDING AND EQUIPMENT				
DESCRIPTION	JUL 2008 COST	CAPITAL LIFE (YEARS & %)		DEPRECIATION AMOUNT
Steelwork/Metalwork/Roof	\$ 1,684,748	20	5.00%	84,237
Insulation	\$ 98,514	20	5.00%	4,926
Concrete	\$ 618,940	25	4.00%	24,758
Electrical	\$ 188,539	20	5.00%	9,427
Tunnel Fans	\$ 67,117	12	8.33%	5,591
Tunnel Roll Seals	\$ 15,235	12	8.33%	1,269
Shutters	\$ 42,850	12	8.33%	3,569
Tunnel Winching Systems	\$ 43,802	12	8.33%	3,649
Coolpads	\$ 70,125	10	10.00%	7,013
Foggers	\$ 20,650	12	8.33%	1,720
Stirring Fans	\$ 10,036	10	10.00%	1,004
Mini Vent Fans	\$ 16,059	12	8.33%	1,338
Heaters	\$ 26,710	10	10.00%	2,671
Controllers	\$ 37,264	8	12.50%	4,658
Feed Fill system	\$ 14,735	15	6.67%	983
Feeders	\$ 106,724	15	6.67%	7,119
Drinkers	\$ 96,563	10	10.00%	9,656
Silos	\$ 57,133	20	5.00%	2,857
Dosmatics	\$ 3,283	10	10.00%	328
Total	3,219,028			176,773
Total Depreciation On Shedding And Equipment.....				176,773

CAPITAL DEPRECIATION - SUNDRY PLANT				
DESCRIPTION	JUL 2008 COST	CAPITAL LIFE (YEARS & %)		DEPRECIATION
Medium Tractor	47,512	10	10.00%	4,751
Small Tractor	15,837	10	10.00%	1,584
Disinfectant Spray Unit	25,000	10	10.00%	2,500
Attachments	15,500	10	10.00%	1,550
Trailers	5,400	10	10.00%	540
Mobile Feed Bin	3,300	10	10.00%	330
Mobile Auger	2,750	10	10.00%	275
Mobile Feed Spreader	2,956	10	10.00%	296
Extra Silo	5,279	10	10.00%	528
Mower	11,000	10	10.00%	1,100
Fencing	26,089	20	5.00%	1,304
Water Tanks	28,000	10	10.00%	2,800
Coolroom	12,000	20	5.00%	600
Machinery Shed / Workshop (inc Toilet)	46,000	30	3.33%	1,532
Bores	38,000	10	10.00%	3,800
Generators 150 - 200KVA	40,215	20	5.00%	2,011
Water Reticulation & Treatment	49,685	10	10.00%	4,968
Gas Reticulation	26,089	20	5.00%	1,304
Motor Vehicles	20,000	10	10.00%	2,000
4 x 4 Motor-bike	6,000	10	10.00%	600
Sundry (Office Equipment)	22,500	10	10.00%	2,250
Workers Cottage / Chattels	200,000	40	2.50%	5,000
Total	649,112			41,623
Total Depreciation on Sundry Plant.....				41,623

OPERATING COST

Cost of Production

July, 2008

OPERATING COST SUMMARY

The operating cost for the model farm is broken down by two major components:

- 1. Primary operating cost; and**
- 2. Working capital charge.**

The primary operating cost is further broken down by twelve expenditure items. These cash costs are updated with actual prices where possible or nominal indices if otherwise. A working capital charge is then calculated on the following basis:

- * Disbursement period of one half batch interest applicable;**
- * Interest on working capital charged at the Westpac Indicator lending rate over the previous six months plus a 2.50% borrowing margin for growers; and**
- * Applicable to total updated operating expenditure.**

The table below summarizes this process. A more detailed account of procedure follows.

OPERATING COST SUMMARY		
DESCRIPTION	JAN 2008 COST	JUL 2008 COST
Operating Cost	379,376	500,733
Working Capital Charge At 13.28%	4,093	5,684
Total Operating Cost.....	383,469	506,417

The July 1, 2008 operating based costs for total cost of production are:

- | | |
|--|----------------|
| I. Total operating cost..... | 500,733 |
| II. Working capital charge..... | 5,684 |

UPDATED OPERATING COST

DETERMINATION OF OPERATING COMPONENTS

There are twelve costs identified as the primary components to total operating expenditure. The determination of base values are outlined below.

MANAGER'S

SALARY..... Base salary of \$95,500 per annum agreed July 1, 2008. This is to be indexed bi-annually in accordance with Cullen, Egan and Dell Australia Pty Ltd for production and supply.
(Inc. Super)

Total Jan 2008 = \$80,783 (9,352m ²)
\$95,500 (Base Value: Jul 2008 - 11,000m ²)

HIRED LABOUR..... Labour cost based on one full-time farm hand with a base salary of \$82,700 agreed July 1, 2008. To be indexed bi-annually in accordance with the Cullen, Egan & Dell Australia Pty Ltd index for production & supply.
(Inc. Super)

Total Jan 2008 = \$70,011 (9,352m ²)
\$82,700 (Base Value: Jul 2008 - 11,000m ²)

LITTER..... An average cost of \$30.00 per cubic metre delivered, agreed July 1, 2008 based upon survey results. Litter usage is based on:
 * A depth of 40mm, area of 11,000m²;
 * A total of 440 cubic metres per batch; and
 * includes sawdust-sweeping and -spreading.
 Average cost of litter is to be indexed bi-annually by the Perth CPI.

Total Jan 2008 = \$53,324 (9,352m ²)
5.85 batches x (\$30.00/m ³) x 440m ³ /b = \$77,220 (Base Value: Jul 2008 - 11,000m ²)

FUEL AND OIL..... An actual cost of \$1.75 per litre agreed July 1, 2008. The cost is updated bi-annually based on actual unit prices incurred. Fuel and oil usage is based on 1,216 litres/batch.

1.1000

Total Jan 2008 = \$8,012 (9,352m ²)
1216 l/b x \$1.75/l x 5.85 batches = \$12,449 (Actual: Jul 2008 - 11,000m ²)

ELECTRICITY..... The model assumes that all farms are on time of use R1 tariff. This is to be indexed bi-annually based on actual cost increases.

Total Jan 2008 = \$32,931 (9,352m ²)
\$6,642 x 5.85 batches = \$38,854 (Base Value: Jul 2008 - 11,000m ²)

DETERMINATION OF OPERATING COMPONENTS (cont...)

REPAIRS AND

MAINTENANCE..... The base figure agreed July 1, 2008 is \$52,372. This is to be indexed bi-annually by the Perth CPI.

Total Jan 2008 = \$35,590 (9,352m²)

\$9,402/batch x 5.85 batches = \$52,372 (Base Value: Jul 2008 - 11,000m²)

SANITATION..... The base figure agreed July 1, 2008 is \$19,749. This is to be indexed bi-annually based on the Perth CPI.

Total Jan 2008 = \$9,098 (9,352m²)

\$3,545 * 5.85 batches = \$19,749 (Base Value: Jul 2008 - 11,000m²)

SUNDRY

EXPENSES..... The new base figure agreed July 1, 2008 is \$24,751. This is to be indexed bi-annually based on the Perth CPI.

Total Jan 2008 = \$17,223 (9,352m²)

\$4,231 * 5.85 batches = \$24,751 (Base Value: Jul 2008 - 11,000m²)

GAS FOR

BROODING..... Survey results show that volume of gas for brooding was 18,091 litres per batch agreed July 1, 2008 based upon costs at time of survey. This is now to be updated bi-annually based on an average costs per litre for that period, currently set at \$0.60/litre.

Total Jan 2008 = \$51,206 (9,352m² @ \$0.489/l)

18,091 l/b * \$0.60/l * 5.85 = \$63,500 (Base Value: Jul 2008 - 11,000m²)

RATES..... Based on an average for rates payable on agreed locations of land identified in the capital cost component of 'land'. This is to be updated bi-annually using the Perth CPI.

Total Jan 2008 = \$3,168 (9,352m²)

\$3,500 (Base Value: Jul 2008 - 11,000m²)

INSURANCE..... Base premium of \$25,136 per annum agreed July 1, 2008, based on industry broker's quote. This is to be indexed bi-annually in accordance with the Perth CPI.

Total Jan 2008 = \$14,780 (9,352m²)

\$25,136 (Base Value: Jul 2008 - 11,000m²)

DETERMINATION OF OPERATING COMPONENTS (cont...)

DEAD BIRD DISPOSAL

SERVICE..... As agreed between processors and growers this daily collection service now becomes a cash item in the cost of production and shall remain a fixed cost per farm.

Total Jan 2008 = \$3,250 (9,352m²)
\$5,000/farm per annum (Fixed Cost: Jul 2008 - 11,000m²)

PRODUCTIVITY MEASURES

The following annual productivity measures for a model farm have been based on weighted averages for current industry practice. Productivity measures shall be reviewed bi-annually.

PRODUCTIVITY MEASURES	
DESCRIPTION	MEASURE
Size Of Model (Square Meters)	11,000
Size Of Model (Square Feet)	118,404
Placement Density (Square Feet Per Bird)	0.50
Placement Density (Birds Per Square Metre)	21.50
Mortality Rate (% Total Placement)	4.80%
Batch Rate (Per Annum)	5.85
Birds Per Annum Per Model Farm Marketed.....	1,317,116

WESTERN AUSTRALIAN TOTAL SHED AREA

TOTAL SHED AREA		
COMPANY	NUMBER OF FARMS	METRES²
Ingham's Growers	22	233,764
Ingham's Company Farms	1	18,190
Bartter Pty Ltd	17	154,269
Total	40	406,223

UPDATED OPERATING COST

The following table summarizes the updated operating costs for January 1, 2008.

OPERATING COST - JULY 1, 2008				
DESCRIPTION	Jan 2008 9,352m²	Jul 2008 11,000m²	INDEX MOVE (%)	TOTAL MOVE (%)
Manager's Salary	80,783	95,500	N/A	18.22%
Hired Labour	70,011	82,700	N/A	18.12%
Litter	53,324	77,220	N/A	44.81%
Fuel And Oil	8,012	12,448	N/A	55.37%
Electricity	32,931	38,854	N/A	17.99%
Repairs & Maintenance	35,590	52,372	N/A	47.15%
Sanitation	9,098	19,749	N/A	117.07%
Sundry Expenses	17,223	24,752	N/A	43.72%
Gas	51,206	63,500	N/A	24.01%
Rates	3,168	3,500	N/A	10.48%
Insurance	14,780	25,137	N/A	70.07%
Dead Bird Disposal	3,250	5,000	N/A	53.85% *
Total	379,376	500,733		31.99%
Total Operating Cost as at July 1, 2008.....				500,733

The first operating based cost for the total cost of production is total updated operating expenditure: \$500,733 applicable July 1, 2008.

The percentage movements in the respective operating costs, attributable to indexation, are shown above.

WORKING CAPITAL CHARGE

The working capital charge is calculated on the following basis:

- * **Disbursement period of one half batch interest applicable**
- * **Interest on working capital charged at the Westpac Indicator lending rate over the previous six months plus a 2.50% borrowing margin for growers, and**
- * **Applicable to total updated operating expenditure**

WESTPAC PRIME RATE - from March 31, 2008	
183 Days at	10.78%
Average Prime Rate.....	10.78%
Margin Allowance.....	2.50%
Applicable Rate.....	13.28%

Given these parameters the table below calculates the working capital charge applicable July 1, 2008:

WORKING CAPITAL CHARGE - JULY 1, 2008	
DESCRIPTION	COST
Total Operating Expenditure Per Annum	500,733
Total Batches Per Annum	5.85
Total Operating Expenditure Per Batch.....	85,595
Interest Rate On Working Capital	13.28%
Working Capital Charge Per Batch	11,367
Working Capital Charge applicable as at July 1, 2008.....	5,684

The second operating based cost for the total cost of production is a working capital charge of \$5,684 applicable July 1, 2008.

SUMMARY

Cost of Production

July, 2008

COP SUMMARY - INDUSTRY AVERAGE MODEL(11000m²)

(Based upon fixed tunnel density)

The following table summarizes the cost of production for July 1, 2008.

PRODUCTIVITY MEASURES	
DESCRIPTION	MEASURE
Size Of Model (Square Metres)	11,000
Size Of Model (Square Feet)	118,404
Placement Density (Square Feet Per Bird)	0.50
Placement Density (Birds Per Square Metre)	21.50
Mortality Rate (% Total Placement)	4.80%
Batch Rate (Per Annum)	5.85
Birds Per Annum Per Model Farm Marketed.....	1,317,116

COST OF PRODUCTION SUMMARY					
DESCRIPTION	JAN 2008	CENTS PER BIRD	PERCENT MOVE	JUL 2008	CENTS PER BIRD
Return On Land	1.78	1.78	42.78%	33,500	2.54
Return On Site Works	1.91	1.91	5.35%	26,557	2.02
Return On Shedding & Equipment	9.07	9.07	1.60%	121,357	9.21
Return On Sundry Plant	1.55	1.55	20.09%	24,472	1.86
Return On Capital.....	14.31	14.31	9.22%	205,886	15.63
Depreciation On Shedding & Equipment	15.19	15.19	-11.64%	176,773	13.42
Depreciation On Sundry Plant	3.02	3.02	4.69%	41,623	3.16
Depreciation On Capital.....	18.21	18.21	-8.93%	218,396	16.58
TOTAL CAPITAL COST.....	32.52	32.52	-0.94%	424,282	32.21
Manager's Salary	7.20	7.20	0.77%	95,500	7.25
Hired Labour	6.24	6.24	0.69%	82,700	6.28
Litter	4.75	4.75	23.44%	77,220	5.86
Fuel And Oil	0.71	0.71	32.44%	12,448	0.95
Electricity	2.93	2.93	0.58%	38,854	2.95
Repairs & Maintenance	3.17	3.17	25.44%	52,372	3.98
Sanitation	0.81	0.81	85.04%	19,749	1.50
Sundry Expenses	1.53	1.53	22.51%	24,752	1.88
Gas	4.56	4.56	5.71%	63,500	4.82
Rates	0.28	0.28	-5.82%	3,500	0.27
Insurance	1.32	1.32	44.98%	25,137	1.91
Dead Bird Disposal	0.29	0.29	31.14%	5,000	0.38
Operating Cost.....	33.79	33.79	12.51%	500,733	38.02
Working Capital Charge.....	0.36	0.36	18.38%	5,684	0.43
TOTAL OPERATING COST.....	34.15	34.15	12.57%	506,416	38.45
TOTAL COST OF PRODUCTION.....	66.67	66.67	5.98%	930,698	70.66

WORKING DATA

Cost Of Production

July, 2008

COST OF PRODUCTION WORKING DATA

The following information has been detailed as working data for the July, 2008 cost of production.

1. The Perth CPI, building material indices and 10 year bond rates are adjusted to two decimal places.
2. Managers' salary and hired labour is to be indexed in accordance with *Cullen, Egan and Dell Australia Pty Ltd Percentage Movement in Base Salary - Production and Supply*. The *Cullen, Egan and Dell* index showed a 1.90% increase for the 6 months ending July 2008.
3. The determination of the rate of return applicable to capital invested is based on the March 10 year bond rate plus a risk rate of 1.5%.

MONTH	10 Year Bond Rate
Mar-2008	6.04%
Industry risk allowance	1.50%
Applicable rate of return	7.54%

4. The Perth CPI is sourced from the Australian Bureau of Statistics, catalogue number 6401.0 The building material indices are extracted from the Australian Bureau of Statistics publication, "**Producer Price Indexes**", catalogue number 6427.0*

The indices applicable to the July 2008 cost of production will be based on the percentage movement between September 2007 and March 2008 for both CPI and building materials. As from January 2005, we are using the "Producer Price Indexes", namely Table 14, columns: "**274-276: Fabricated Metal Products**", "**26: Non-Metallic Mineral Products**", and "**283-286: Electronic Equipment and Other Machinery**".

Indice	Sep 2007 Index	Mar 2008 Index	Movement
Perth CPI	158.9 (N/A)	162.5 (N/A)	2.27%
Fabricated Metal Products	155.6 (N/A)	149.7 (N/A)	-3.79%
Non-metallic Mineral Products	145.1 (N/A)	146.7 (N/A)	1.10%
Elect. Equip/Other Machinery	136.7 (N/A)	135.3 (N/A)	-1.02%

* Replaces "Price Index of Materials Used in Buildings Other than House Building", catalogue 6407.

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WESTERN AUSTRALIAN TOTAL REGISTERED SHED AREA

INGHAM'S	
	sq.m.
1 Dress Circle	25,485
2 Brajkovich	15,174
3 Catambo	14,664
4 Wallace (not stocked)	13,500
5 Corpwest	13,123
6 Devereux	12,413
7 Edmondson	12,328
8 Treloar	10,477
9 Jocton	10,027
10 Trandos	9,350
11 Lane	9,350
12 Williams	9,350
13 Nowergup	9,350
14 Kestel	9,350
15 Plaisir	9,259
16 Sivior	9,241
17 Zagar	9,235
18 Kyme	9,108
19 Lenzo	7,837
20 Giovenco	5,476
21 Le Bouganville	4,842
22 Foxwood	4,825
Sub-Total	233,764
23 Ingham's Farm 2	18,190
TOTAL.....	251,954

BARTTER	
	sq.m.
1 Raintree	18,223
2 Walloway	14,091
3 Lanaubra	11,332
4 Redmond	11,220
5 Terrigal	9,816
6 Terrace	9,472
7 Geyer	9,486
8 Exeter	9,031
9 Keeffe	8,428
10 Wirraway	8,311
11 Perkets	7,415
12 McPhail	7,416
13 Booker	6,770
14 Tuart	6,674
15 Abaroo	6,282
16 Ayres	5,483
17 Melaleuca	4,819
TOTAL.....	154,269

INDUSTRY TOTAL = 406,223

NOT FOR PUBLICATION - CONFIDENTIAL

CHICKEN MEAT INDUSTRY COMMITTEE**(current at 19 December 2007)****Chair**

Mr Bruce Thorpe Manager Farm Business Development Department of Agriculture and Food SOUTH PERTH WA 6151	TELEPHONE:	9368 3186
	MOBILE:	0429 116 042
	FASCIMILE:	9474 3217
	EMAIL:	bthorpe@agric.wa.gov.au

Independent Representatives

Ms Jan Trenorden Struan Farm PO Box 115 WYALKATCHEM WA 6485	TELEPHONE:	9682 5056
	MOBILE:	0428 825 056
	FASCIMILE:	9682 5056
	EMAIL:	jantreno@bigpond.com

Ms Lucy Radzikowska PO Box 157 GINGIN WA 6503	TELEPHONE:	9575 1154
	MOBILE:	0427 070035
	FASCIMILE:	9575 1154
	EMAIL:	lucy@execone.biz

Processor Representatives

Mr Craig Menzie (MEMBER) PO Box 89 MT HAWTHORN WA 6016	TELEPHONE:	9277 1522
	MOBILE:	0401 704 573
	FASCIMILE:	92771005
	EMAIL:	craig.menzie@bartter.com.au

Mr Stewart Smith (DEPUTY) Broiler Husbandry Manager Bartter Enterprises.	TELEPHONE:	9277 1522
	MOBILE:	
	FASCIMILE:	
	EMAIL:	

Mr Greig Smith (MEMBER) General Manager Inghams Enterprises Pty Ltd 9 Baden Street OSBORNE PARK WA 6017	TELEPHONE:	9441 4200
	MOBILE:	
	FASCIMILE:	9444 0419
	EMAIL:	

Mr Ric Castle (DEPUTY) Inghams Enterprises Pty Ltd 9 Baden Street OSBORNE PARK WA 6017	TELEPHONE:	9441 4200
	MOBILE:	
	FASCIMILE:	9444 0419
	EMAIL:	rcastle@bigpond.com.au

Grower Representatives.		
Mr Len Brajkovich (MEMBER) President – WABGA 51 Swan Road MIDDLE SWAN WA 6056	TELEPHONE:	9274 1784 or 9274 1787
	MOBILE:	0414 474 573 (Joseph – leave a message)
	FASCIMILE:	9250 1575
	EMAIL:	lenbrako@iinet.net
Mr Rob Kestral (DEPUTY) Lot 3686 Airfield Road GINGIN WA 6503	TELEPHONE:	9575 2395
	MOBILE:	0429 778 560
	FASCIMILE:	9575 2618
	EMAIL:	robertkestel@bigpond.com
Mr Justin Byatt (MEMBER) 322 Hopelands Rd SERPENTINE WA 6125	TELEPHONE:	9525 2955
	MOBILE:	0438 252 966
	FASCIMILE:	
	EMAIL:	raintree_jb@optusnet.com.au
Mr Laurence Carter (DEPUTY) 358 Taylor Road FORRESTDAL WA 6117	TELEPHONE:	9397 0826
	MOBILE:	0418 890 0021
	FASCIMILE:	
	EMAIL:	terriganpark@bigpond.com
Secretary		
Bryan Annen Industry & Rural Services Locked Bag 4 Bentley Delivery Centre WA 6983	TELEPHONE:	9368 3184
	MOBILE:	0427 448 404
	FASCIMILE:	9367 4265
	EMAIL:	bannen@agric.wa.gov.au