



NOTICE

Inquiry into the *Chicken Meat Industry Act 1977*

FINAL REPORT TABLED IN PARLIAMENT

The Treasurer Mr Colin Barnett has released the Economic Regulation Authority's [final report](#) on its inquiry into the *Chicken Meat Industry Act 1977 (Act)*. The inquiry followed a request from the Treasurer of Western Australia in February 2010 for the Authority to review the Act, which requires that its effectiveness be reviewed every five years.

The main recommendation of the Authority in the final report is that the Act be repealed.

The Act was introduced to improve stability in the chicken meat industry. This industry is dominated by a small number of chicken meat processing companies, who control most stages of the production and processing of chicken meat, apart from the growing out of chickens, which is contracted out to individual growers.

The Act provides for the setting of an average price to be paid by processors to their growers and a prescribed form of growing agreement. The Act is administered by the Chicken Meat Industry Committee, which constitutes two grower representatives, two processor representatives, two independents and an independent Chairman.

The Authority has been conscious that there must be a strong case to justify industry-specific legislation, with the benefits to society clearly outweighing the costs.

The Authority's review of the chicken meat industry in Western Australia has shown that there are serious problems with the sector under the current legislation.

- There has been a breakdown in relationships between growers and processors under the Act, with processors abstaining from the determination of the average fee.
- There has been little expansion in production over the past decade, despite steady growth in the consumption of chicken meat, with the gap being met by imports of chicken meat from South Australia.
- By comparison, other States, where growing fees are not regulated and most growers are on individual contracts with processors, have had significant expansion in their chicken meat growing sectors. The Authority has investigated whether there are high costs of dispute resolution in other States and has found that, while negotiations between processors and growers are often difficult, most growers have signed contracts and there are relatively few cases brought to formal dispute resolution or arbitration, given the number of growers.

The Authority found that there are factors that can create an imbalance in negotiating powers in favour of processors, including the limited opportunity for growers to switch to another processor or to convert their significant capital investments to another use. However, the Authority concluded that processors are also dependent on their growers in order to maintain reliable supplies of chicken meat, so there are limits to processors' bargaining power.

Further, the Authority considered that growers would be likely to be granted authorisation by the Australian Competition and Consumers Council (ACCC) for collective bargaining if they were to seek it. Grower groups in other states have found such authorisations to improve their respective negotiating positions. Overall, while favourable towards growers, it is likely to be detrimental to the industry as a whole.

The Authority also considered whether the Act could be amended to improve its effectiveness. The Authority determined that, to remove any perception of favouritism towards one party or the other, this would require the replacement of the Committee by an independent arbitrator. Also, the model used to determine the average fee to be paid to growers would need to be independently reviewed and maintained. The Authority noted that it is appropriate to base such a fee on the costs of an efficient new entrant into the growing sector, which can be estimated using current cost accounting. However, the recommended administrative changes would result in a significant increase in costs and would erase any advantages of the current approach over an alternative, such as authorised collective bargaining.

In preparing the final report, the Authority conducted two rounds of public consultation and received eight public submissions. The Authority also met with key stakeholders throughout the inquiry, as well as the independent members and secretariat of the Chicken Meat Industry Committee. The Authority would like to thank all who have participated in the development of the Authority's final report and recommendations.

A copy of the final report is available on the Authority's [website](#).

For further information contact:

General Enquiries

Bruce Layman
Director References and Research
Ph: 61 8 9213 1900
Fax: 61 8 9213 1999

Media Enquiries

Sue McKenna
The Communications Branch Pty Ltd
Ph: 61 8 9254 4044
Mb: 0424 196 771

LYNDON ROWE
CHAIRMAN

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