



## *Improving market transparency in perishable agricultural goods industries*

# Chicken meat industry fourth workshop 1 November 2021: Workshop communique

### Background

In late 2020, the Australian Competition and Consumer Commission (ACCC) conducted an inquiry into bargaining power imbalances in supply chains for perishable agricultural goods (PAG) in Australia. The inquiry recommended that the government explore measures to increase price transparency in PAG industries to increase competition in those industries.

In response to this recommendation, the Australian Government, through the Department of Agriculture, Water and the Environment (DAWE) has committed \$5.4 million to improve price and market transparency in PAG industries by:

- delivering co-design workshops with PAG industries to understand their market transparency issues, opportunities and requirements
- delivering a grants program to develop and implement tailored mechanisms to improve price and market transparency.

The workshops provide an opportunity for participants to discuss price and market transparency issues in their sector, brainstorm ideas to improve transparency and co-design the details of solutions going forward.

### Workshop 4 outcomes

Five industry and government representatives ([Appendix A](#)) attended a workshop for chicken meat corporate growers to review and discuss the issues, barriers, opportunities, and potential projects to improve price and market transparency, which were raised by the industry in previous workshops. The purpose of this workshop was to test the ideas raised by chicken meat growers and processors at previous workshops and discuss other potential concepts that could be considered as part of future projects. The future projects would aim to improve price and market transparency for the chicken meat sector and could either form the basis of a proposal in the department's upcoming grants program or be progressed outside of this program.

The views and concepts raised by the workshop in response to the issues, barriers and opportunities raised during previous workshops are summarised in Table 1.

**Table 1 - Industry issues, barriers and opportunities**

<b>Category</b>	<b>Issue or barrier</b>	<b>Opportunities</b>	<b>Additional views</b>
<b>Regulatory</b>	<ul style="list-style-type: none"> <li>• Unequal bargaining power between growers and processors that is perceived to manifest in price inequity.</li> </ul>	<ul style="list-style-type: none"> <li>• An Industry code of conduct that would include principles of price transparency, price determination, supply chain costing and dispute resolution mechanisms.</li> </ul>	<ul style="list-style-type: none"> <li>• Unequal bargaining power can exist, particularly where there is no competition amongst processors in a region.</li> <li>• Pricing and contract issues are different and should be dealt with separately.</li> <li>• Code of Conduct is about how a contract might work rather than details of pricing.</li> </ul>
<b>Chicken meat industry</b>	<ul style="list-style-type: none"> <li>• Price signalling not coming to the grower and information asymmetry in the supply chain.</li> <li>• Complex pool system and contracts are opaque: no transparency between or within regions on how price is determined and what criteria is used to assess price.</li> </ul>	<ul style="list-style-type: none"> <li>• Architecture exists to enable contractual mechanisms for data sharing.</li> <li>• Forward contracting for those growers on shorter term contracts – less than 5 years in length.</li> <li>• Forward physical and financial modelling for regions; making information available to growers before they invest.</li> </ul>	<ul style="list-style-type: none"> <li>• Signals/data to indicate when a processor might close a plant in a region before a grower invests is important. This may not be discoverable during the due diligence process.</li> <li>• The relationship between growers and processors is very important as growers are looking after the processors' chickens.</li> <li>• Not looking for through-supply chain transparency, rather transparency on the costs associated with growing.</li> <li>• More concerned about terms of contracts and when contracts come up for renewal.</li> </ul>
<b>Process</b>	<ul style="list-style-type: none"> <li>• Benchmarking in pricing is not available to growers including cost of production, wholesale and retail.</li> </ul>	<ul style="list-style-type: none"> <li>• Frameworks and processes in play to enable benchmarking, including return on investment data.</li> </ul>	<ul style="list-style-type: none"> <li>• Growers provide the facility and labour, so these costs could be reviewed periodically. Price comparison across the supply chain is not relevant as processors take on the majority of risk.</li> <li>• Corporate growers have the resources to do a return-on-investment analysis before entering into a contract. Small growers may not have these resources. An ROI model template that could be used by prospective growers may be helpful. Such a model should include all the significant risk variables and the ability to vary each one.</li> </ul>
<b>Information</b>	<ul style="list-style-type: none"> <li>• Lack of information transparency – growers not able to verify market or information provided by supply chain</li> </ul>	<ul style="list-style-type: none"> <li>• Index pricing based on data, collated and managed by independent body.</li> <li>• Government to publish pricing, for example, through ABARES or ABS.</li> </ul>	<ul style="list-style-type: none"> <li>• Growers should know their costs of production; they don't need to know the cost of production through the whole supply chain. What value would that add?</li> </ul>
<b>Environmental</b>	<ul style="list-style-type: none"> <li>• Getting to Net Zero 2050 – who and how will it impact? Who will pay for that impact?</li> </ul>	<ul style="list-style-type: none"> <li>• Forward modelling for regions, similar to dairy farm monitoring project for the dairy industry.</li> </ul>	<ul style="list-style-type: none"> <li>• This is a conversation that needs to be had, but in a different forum.</li> </ul>

Participants were briefed on, and then discussed the 2 project ideas that were developed by the chicken meat growers' group in a workshop held on 28 September 2021, and discussed by chicken meat processors at a workshop on 7 October 2021:

- 1) Develop a Code of Conduct – The code would be based on risk apportionment and principles of fairness and acting in good faith.
- 2) Benchmarking – Data sharing and benchmarking across the supply chain to address information asymmetries and build price indexes.

Details of these project ideas are set out in the *Chicken meat industry second workshop 28 September 2021: Workshop communique*.

### **Code of conduct**

The corporate grower group questioned the relevance of a Code of Conduct to Recommendation 4 of the PAG inquiry but supported the idea of a voluntary code of conduct that was simple, addressed the pertinent issues and included the key items that contracts would need to cover, for example key common clauses.

#### **Pros**

- A clear annual fee review process which recognizes unavoidable cost increases to Growers.
- Clear process to follow when a plant closure is considered.
- Clear pre-defined process regarding contract renewal.
- An agreed process of assigning contracts to new owners during the term of a contract which clarifies upgrade requirements during the term of the existing contract.

#### **Cons**

- Shouldn't become something that stifles commercial negotiations.
- The industry should not be supporting poor performers.
- Cannot have a one-size fits all for determining contract terms.

#### **Opportunities**

- Preference is for a voluntary code, if major processors sign up to it. However, a voluntary code would not be worthwhile if processors do not agree to sign up.
- There should be some oversight to help make sure the processors stick to the code.
- A code needs to be simple and not complicated, address the pertinent issues and have clear language that is understood by all parties.
- There should be obligations on growers as well.
- Processors and growers to agree what critical protections are needed in the code, for example:
  - Key common clauses that can be incorporated into contracts, rather than a definitive contract template.
  - Dispute mechanism boundaries and interpretation.
- Grant application to fund drafting and consultation of a voluntary code.

## **Benchmarking**

The corporate growers did not support supply chain benchmarking. Growers, armed with a suitable model with confidential inputs, could benefit from opportunities to improve their efficiencies. This is not regarded as supply chain benchmarking and any data would be owned by growers and be confidential.

### **Pros (return on investment)**

- Most benefit would be derived if participation was national with data segmented by sector, geography and size.
- To be effective, it must have accurate information and from different types of growers.
- It should relate to just the on- farm costs and will enable growers to see where they could see efficiencies to their costs.

### **Cons (benchmarking)**

- Data should be confidential to the grower participants.
- Public transparency of costs in the supply chain, can lead to margin pressure throughout. This may impact both processor and grower, particularly with the use of value chain analysis techniques as seen overseas (UK).

### **Opportunities**

- A return-on-investment model can provide data for someone contemplating entering the growers' market.
- Should have a body to manage, must be independent and respected across industry.
- Suggestion that benchmarking/ROI model to be led by Australian Chicken Meat Federation as representative of both processors and growers.

## **Next steps**

Corporate chicken meat growers provided useful insights to the projects previously proposed. Representatives from the chicken meat supply chain should continue to work together to explore the development of projects to address the opportunities presented over the four workshops.

## Appendix A: Participant list

- AAM (Investment Group)
- Fairglen Farms
- ProTen
- Australian Competition and Consumer Commission
- DAWE Agricultural Policy Division

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