2006/07

AUSTRALIAN AGRIBUSINESS GROUP

MARKET OVERVIEW – THE AUSTRALIAN CHICKEN MEAT INDUSTRY

Independent Assessment – **November 2006**

Industry Snapshot

- Unlike most other rural industries in Australia, the chicken meat industry is dominated by a handful of large, vertically integrated companies.
- The Australian chicken industry is strategically located close to the major capital cities of Australia, which keeps distribution and transport costs down and ensures labour and other services are available.
- The USA, China and Brazil are the leading producers of chicken meat accounting for 19%, 15% and 11% of global production in 2005. Australia is a minor chicken meat producer on a world scale accounting for 1% of world production in 2005.
- Australian chicken meat production has risen substantially in the past decade, reaching over 772,000 tonnes in 2005/06. This is an average increase of approximately 6% per annum in the past decade.
- Australia's chicken meat industry is primarily domestically focused, with exports accounting for just 2% of domestic production in 2005. Because of strict quarantine regulations in Australia, imports of chicken meat into Australia are virtually zero.
- AAG believes with continued high standards of bio-security and public awareness in relation to key issues, the chicken meat industry can look forward to steady growth as a significant player in the Australian food sector.

1 Introduction

Chickens are a domesticated bird and are one of the most consumed meats in the world. Chickens that are grown for meat production are commonly referred to as *broiler* chickens. In the developed world, commercial chicken meat farms are mostly large scale, highly intensive and mechanised operations that occupy relatively small areas of land [1].

Before the 1950's, chicken production in Australia was an informal supplement to egg production. Since then the commercial production of chicken meat in Australia has increased rapidly as chicken processing has become more efficient, leading to reduced prices and greater demand for the product.

Unlike most other rural industries in Australia, the chicken meat industry is dominated by a handful of large, vertically integrated companies which own almost all aspects of production including breeding farms, hatcheries, feed mills and processing plants [2]. Three of these companies – Inghams Enterprise, Bartter Enterprises and Baiada – operate in at least three states each and supply about 80% of Australia's broiler chickens [2].

In Australia, growing broiler chickens is generally contracted out by the major processing companies. Under this system, the contract growers will own the farm and provide the management, shedding, equipment, labour, bedding and other inputs to rear chickens [2]. The processing company supplies the chickens and provides feed, medication and technical advice.

The majority of chicken meat operations in Australia farm their broiler chickens in open poultry houses where chickens are fed a strictly formulated diet which provides for optimum growth. Free range chicken meat accounts for approximately 2% of chicken produced, with organic meat accounting for less than one percent [1].

One of the major issues surrounding the chicken meat industry is public perception in regards to the use of hormones and antibiotics in broiler chickens. Under international law, hormones are banned from being administered to broiler chickens or breeders [1].

One of the major threats to the chicken meat industry is Avian Influenza (or *Bird Flu*). Bird Flu is a potentially fatal influenza virus which can spread to humans after they have been in close contact with a sick bird. Bird flu became a prominent issue for the Australian chicken industry in late 2005 when it appeared in a number of countries through Asia and Europe [3]. Although the consequences to the Australian industry were not directly apparent during the most recent outbreak in Asia, an outbreak in Australia would be devastating the local industry.

The peak coordinating body for members of the chicken meat industry in Australia is the Australian Chicken Meat Federation Inc (ACMF). Formed in 1964, the ACMF represents the industry at the national level in matters regarding international trade, quarantine, animal health, biosecurity and animal welfare and is involved in providing relevant research and development in the industry.

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2 Producing Regions In Australia

The Australian chicken industry is strategically located close to the major capital cities of Australia, which keeps distribution and transport costs down and ensures labour and other services are available. In more recent times however, the industry has become more regionalised due to urbanisation [4].

The major areas of chicken meat production in Australia include;

- **New South Wales** – Sydney outer metropolitan area, Newcastle, Byron Bay, Tamworth and Griffith.
- **Victoria** – Mornington Peninsula, Geelong and Bendigo.
- **Queensland** – Brisbane area and Mareeba.
- **South Australia** – Adelaide area and Two Wells
- **Western Australia** – Perth area.
- **Tasmania** – Hobart area.
- **Northern Territory** – no commercial meat farms.

In terms of total chicken slaughterings in Australia, NSW and Victoria are the largest accounting for a 35% and 28% share of Australian production respectively in 2004 (Figure 1), but this is not surprising considering they are the largest states in Australia in terms of population and most production is consumed locally.

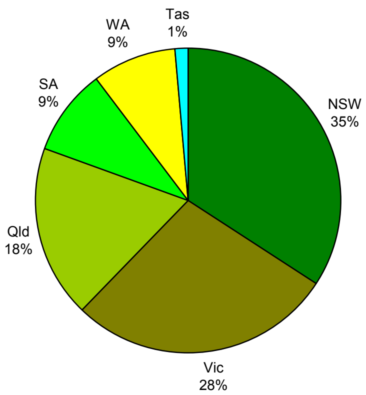

Figure 1 Percentage of total chicken slaughterings by state (2004) [4]

With smaller populations, Queensland, South Australia, Western Australia and Tasmania produced 18%, 9%, 9% and 1% of Australia's total production in 2004 respectively [4].

3 International Supply and Demand

The chicken meat industry is a true global industry with the production of chicken meat occurring in most regions of the world. Global production of chicken has increased significantly in the past decade with production reaching 48.1 million head slaughtered in 2005, an increase of 40% on 1995.

As Figure 2 suggests, the USA, China and Brazil are the leading producers of chicken meat accounting for 19%, 15% and 11% of global production in 2005. Australia is a minor chicken meat producer on a world scale accounting for 1% of world production in 2005 (Figure 2).

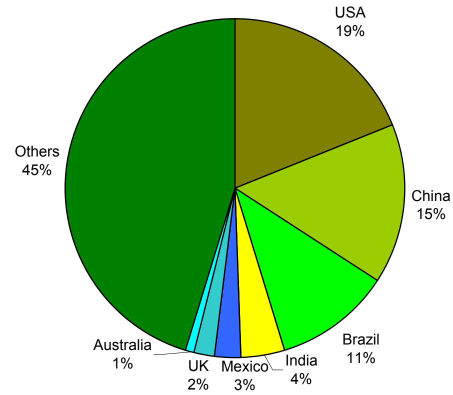

Figure 2 Worlds leading producers of chicken meat (2005) [5]

As a majority of countries have established domestic bio-security and quarantine protection policies in place for their poultry industries, world trade in chicken meat is limited. In 2004, approximately 11% or 7,309 tonnes of world production was placed on the export market [5]. Although trade in chicken meat is limited, it increased by 93% in the decade to 2004.

The worlds leading exporters of chicken meat are outlined in Figure 3. The world's dominant exporters are Brazil and the US who account for 33% and 32% of world exports respectively (Figure 3). Australia is a minor exporter, accounting for 0.2% of world trade.

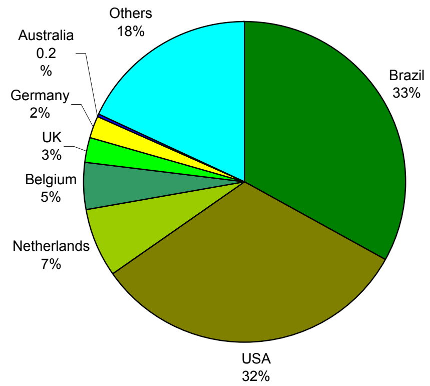

Figure 3 Worlds leading exporters of chicken meat (2004) [5]

Figure 4 outlines the world's leading importers of chicken meat in 2004. As Figure 4 suggests, there is no dominant importer of chicken meat with the largest importers, Russia, Saudi Arabia, Japan, UK and Mexico accounting for 36% of the market.

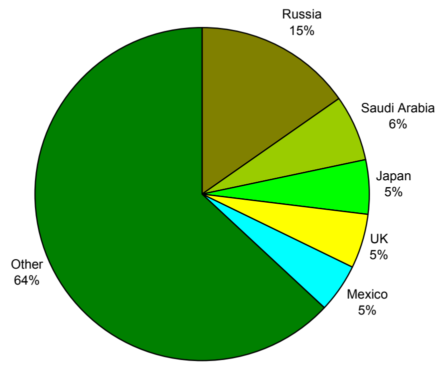

Figure 4 Worlds leading importers of chicken meat (2004) [5]

4 Australian Supply and Demand

Australian chicken meat production has risen substantially in the past decade, reaching over 772,000 tonnes in 2005/06 (Figure 5). This is an increase of approximately 6% per annum in the past decade.

In 2005/06, the average Australian consumed approximately 38 kilograms of chicken meat, making chicken meat the most popular meat in Australia [6]. According to ABARE (2006), chicken meat is expected to remain the dominant meat in Australia, with chicken consumption projected to reach 39 kilograms per person by 2010/11 [6].

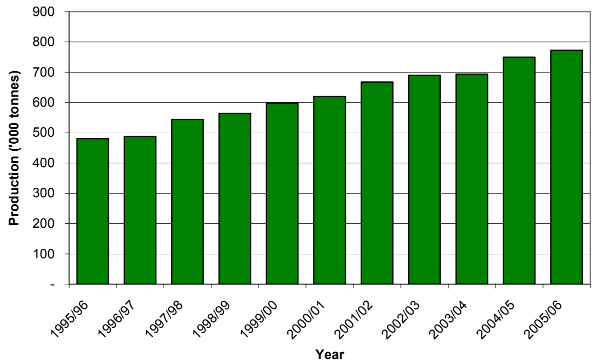

Figure 5 Australia's production ('000 tonnes) 1995/96 – 2005/06 [7]

The two drivers for chicken meat production in Australia are domestic consumer demand and the availability of feed grain.

Australia's chicken meat industry is primarily domestically focused, with exports accounting for a mere 2% of domestic production in 2005 [1]. South Africa was Australia's largest export market in 2005, taking around 29% of total poultry exports (Figure 6).

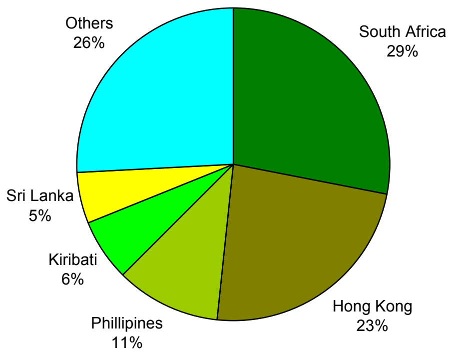

Figure 6 Australia's major exporting partners (2005) [5]

Hong Kong (23%), the Philippines (11%) and Kiribati (6%) are the next largest recipients of Australian export chicken meat (Figure 6).

Because of strict quarantine regulations in Australia, imports of chicken meat into Australia are virtually nil [5]. AAG has discussed this contact with Andreas Dubs from the ACMF who states that Australia is currently reviewing its policies and regulations in relation to the import of chicken meat [9]. At this point in time, Andreas believes that it is unlikely that Australia's strict approach to chicken meat imports will alter in the near future.

5 Possible Price Scenarios

According to the ACMF (2006), the price for chicken meat in the past 50 years has continued to decrease compared to other meats [9]. This has largely been a result of the efficiency gains made in the Australian poultry industry over the past 25 years. This is principally a result of genetic gains created by detailed breeding programs and improved management practices in the chicken industry [10].

Figure 7 outlines the forecast retail price for chicken meat to 2010/11 in real 2005/06 Australian dollars according to ABARE. This suggests that over the long term, chicken meat prices are expected to continue to fall in real terms.

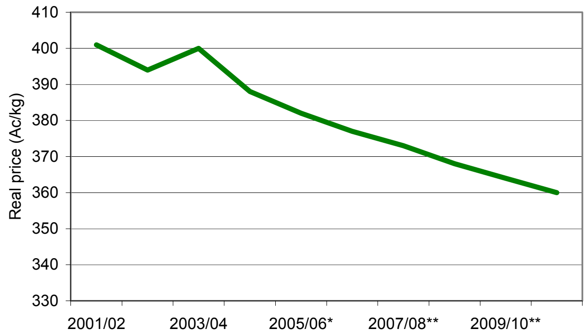

*Figure 7 Forecast retail price for chicken meat from 2001/02 to 2010/11, in real 2005/06 Australian dollars (Note *ABARE forecast, **ABARE projection)*

We note that the ABARE forecast was made in 2004/05 which was prior to the full realisation of the extent of the current drought. AAG believes that in the short term, prices for chicken meat will increase as a direct result of the current high price for grain in Australia, which has been bought upon by the continuing dry conditions in southeast Australia.

6 Future Outlook and Conclusions

The Australian chicken meat industry is currently in a strong position as a result of continuing gains in efficiencies, increased production and increasing demand for the product. The Australian chicken meat industry also benefits from the fact that it is free from competition from imports and as discussed in Section 4, this situation is likely to continue into the future.

Like any agricultural industry however, challenges lie ahead for Australia's chicken industry. In terms of Australian producers, the two main supermarket chains continue to squeeze margins for both broiler chicken growers and processing companies.

Public perception in regards to the use of hormones and antibiotics in broiler chickens are other points of concern. Public perception of welfare issues revolving around housing standards, transportation and stocking densities in broiler sheds are also issues the industry must deal with. These issues all have the ability to harm the perception of the chicken meat industry and as a result, impact on demand for the product.

Research into disease recognition and management continues to be a major focus for the industry. An outbreak of avian influenza would have severe implications for the prospects of the Australian industry in the short to medium term. Precautions continue to be put into place, with heightened bio-security measures the first line of defence, including national bio-security and on-farm procedures [12].

The Australian chicken meat industry is headed by a strong organisation (ACMF) which continues to effectively represent parties involved in the industry. AAG believes that with continued high standards of bio-security and public awareness in relation to key issues, the industry can look forward to steady growth as a significant player in the Australian food sector.

7 References

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