



THE POLITICAL ECONOMY OF MICROECONOMIC REFORM IN THE AUSTRALIAN CHICKEN MEAT INDUSTRY

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Free trade, international competitiveness and microeconomic reform will be familiar concepts to most Australians. For a reform program that has been the received wisdom in politics, in the media and in professional economics for over a decade the reality is difficult to reconcile with the promise. What has happened to all the supposed gains in terms of higher rates of economic growth, reduced unemployment rates, increasing real wages and improved living standards? This article investigates the Australian chicken meat industry which finds itself caught in the politics of the reform rhetoric. The promise is familiar, but there are some twists in the story case of this industry. Those at the bottom of the industry are under threat - employees in the processing sector and contract chicken-growers. Also at risk is a disease-free industry and, even more alarming, native fauna. The proposed reforms largely empower the powerful at the expense of the weak and accommodate the 'free trade' push of countries who impose a range of trade restrictions from high tariffs, restrictive quotas and limited licenses on chicken imports. It is also a story in which the interests of one agricultural industry and one set of producers are capable of being traded-off to satisfy the interests of another agricultural industry which happens to have greater political clout.

Over the last twenty years foreign investment and take-overs, transnational corporate strategy and the role of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organisation (WTO) have been credited with restructuring Australia's agri-food industries (Sargent, 1985; McMichael, 1993; Ukes, 1993; Lawrence and Vanclay, 1994). In the case of the chicken meat industry many of the indicators of

globalisation are absent: foreign investment is negligible and, with the exception of Kentucky Fried Chicken (KFC), transnational corporations have as yet little direct industry influence. Instead, the real threat from globalisation for the local chicken meat industry is firmly located in the governmental policy embrace of free trade in combination with acquiescence to political pressure from local agricultural elites. This process replaces the decades-old farming sector/state alliance with an export-oriented agri-food sector/state alliance.

In an issue of *Political Geography* devoted to the globalisation of agri-food systems, Grant made a plea not to dismiss prematurely the role of the state in the globalisation context. Far from the state being powerless or irrelevant, Grant pointed out that: "Although international pressures provide the stimulus and the domestic social structure broadly constrains choice, policy change is heavily conditioned by the interests of political elites in building and sustaining bases of support, especially in the agricultural sector" (Grant, 1993, pp 248-249). Also cautioning against overstating the globalisation thesis, Pritchard (1995b) has demonstrated how previous corporate decisions as well as current political economy factors mediate the free flow of capital in the agri-business sectors.

In this paper, we explore the state-sponsored dynamics which are currently unsettling what is, from a consumers' and poultry farmers' point of view, Australia's most successful agri-food industry: the chicken meat industry. From a paltry three kilos consumption *per capita* in the early 1950s, Australians now eat an average of 27 kilos *per capita* of chicken meat products. Along with pork, the growth in *per capita* chicken consumption shows no signs of abatement (Table 1). According to the National Farmers Federation (NFF), poultry farmers and workers in the sector have over the last five years experienced the largest increases in weekly income of any agricultural sector (NFF, 1995, p57).

Two policies have the potential to change the balance of power within the industry and to lead to a smaller and less stable national chicken meat industry than presently exists. The first is the Australian Quarantine Inspection Service (AQIS) recommendation that imported chicken meat be allowed into the country for the first time, and the second is the National Competition Policy (following the Hilmer Report) thrust to remove the state government 'shield of crown' legislation over the

industry. Of relevance here is the legislation that facilitates the fee-setting process between chicken farmers and processors.

Table 1: Australian Meat Consumption Per Person (Kg)

Year	Beef and Veal	Mutton and Lamb	Pork	Poultry
1958-59	56.2	36.4	4.6	4.4
1968-69	40.0	39.3	6.7	8.3
1978-79	64.8	18.0	13.3	17.1
1988-89	41.1	21.7	18.1	24.2
1993-94	38.0	20.5	19.3	27.9

Source: Australian Yearbook 1996. Australian Bureau of Statistics, Catalogue 1300.1

There are contradictions and irrationalities associated with these policies. Developments in the chicken meat industry reveals a national policy shift of great significance to Australia's agri-food industries. This entails the future prospect of each agricultural commodity being linked to the export potential of the whole of agriculture. In this context, small industries can be sacrificed on behalf of 'the greater good' of the total agricultural sector. That is, the export earnings and access to international markets of longer established agricultural industries takes precedence over industries within the agricultural sector which do not have large export earnings. Australian government policy inflexibility, coupled with the influence of local agricultural/political elites, has the potential to undermine national food security and destroy vibrant local agri-businesses and jobs.

The Chicken Meat Industry: History

Until 1950, "Pig and poultry production were scarcely industries... and were offshoots of dairy farming ... Fresh pork and table poultry were not in great supply, and were expensive, variable in quality and usually reserved for festive occasions" (Cahn, 1977, p55). Poultry production was largely seasonal, in demand for Christmas festivities, and largely produced as a 'side' product in other industries. No official records for the sector were kept until the mid 1960s, but industry sources estimate that in 1950-51 Australians were producing three million broilers

compared to the present 329 million. In one generation in the post 1945 period, the chicken meat industry "has been the fastest growing primary industry that this country has seen" (Blackett, 1970, p446). In the following generation Australians have shifted their protein consumption from two grazing animals, cattle and sheep, to two cereal processors, the chicken and the pig.

The chicken meat industry grew sevenfold in the 1950s, five fold in the 1960s, doubled in the 1970s, and has steadily expanded over the last 15 years. Chicken will probably overtake beef consumption within a decade, to become Australia's most popular meat. According to the Australian Chicken Growers Council (1997), Australia is the fourth highest chicken-consuming nation in the world (in *per capita* terms) and ranks 17th in terms of total chicken meat production (Larkin and Heilbron, 1997).

Table 2 Producer and Retail Prices for Meat*

Year	Beef		Lamb		Pork		Chicken	
	prod	retail	prod	retail	Prod	retail	prod	retail
1978/79	100	367	100	294	100	330	100	176
1983/84	141	636	141	391	119	506	132	258
1988/89	182	861	181	531	164	650	169	312
1993/94	210	980	236	629	159	728	187	280

* the first figure is an index of producer prices: the second is the average retail price (cents) per kilo.

Source: ABARE (1994, 21-22, 173-174)

In general the demand for chicken meat is both income elastic and price elastic. These characteristics have assisted the industry in increasing its output and expanding its share of the fresh meat sector. The industry has also benefited from positioning chicken meat as a 'healthier' alternative to red meats and through product diversification into a range of cuts and pre-prepared chicken products (e.g., schnitzels, marinades, kebabs). Technology and scale economies have enabled the industry to hold costs down and gain a relative cost advantage over other meat products, with real chicken retail prices declining through time (Marshall, 1989). At the same time prices received by the producers have been increasing (Table

2). In comparison with the red meat sector the chicken producers are not as vulnerable to price variations generated through climatic changes and production cycles in the major exporting nations. The orderly marketing arrangements for chicken production has meant a relatively stable price environment for consumers and producers.

Dimensions of the Chicken Meat Industry

Capital investment in the industry is estimated to be around \$2b, shared 60:40 between about 90 processors and 820 contract farmers. The contract farmers produced 262 million of the 330 million birds grown in 1996, with the remainder being grown on processor-owned farms. Of the largest processors, Inghams produces 3m birds a week, followed by Steggles at 1.8m, and Bartters at 520,000.

Under contract to a processor, the majority of poultry farms raise day-old chickens to the processing stage approximately five times a year. The processors also supply the feed, medicines and veterinary support. The farm workforce on the almost exclusively dedicated chicken meat farms amounts to about 5000 jobs. The processors employ approximately 9000 people in their processing operations, down by 2000 since the late 1980s due to the importation of superior processing technology. A further 4500 people are estimated to be employed in supporting the industry in the construction, transport and veterinary services sectors (ACGC, 1997a).

There are four major industry bodies: the Australian Chicken Growers Council (AGGC), which represents the poultry farmers; the Australian Poultry Industries Association (APIA), representing the two largest processors - known in the industry as The Big Two; the National Poultry Association, representing the dozen or so medium sized processors; and the Australian Chicken Meat Federation, which is an umbrella organisation of all players of the industry. The third largest processor, Barter, of Griffith NSW, is outside of these collective organisations. It is also the only truly integrated operator, owning its own grain farms and poultry growing farms. It is thus exempt from any state government legislation that regulates farmer bird-growing contracts.

There is evidence of vertical integration in the relationships between the Big Two processors and the Big Two supermarket chains. Since the 1960s, Inghams has supplied Woolworths, while Steggles has been Coles' biggest and most consistent supplier. It is through this distribution chain that the mass volumes have been delivered. As one peak body representative put it: "the rest (of the processors) make like the soft underbelly of the whale in their dealings with supermarkets" (Luckhurst, 1996)¹. As a consequence, the processors become price takers, not price setters, in the mass volume supermarket business.

Exports account for a small proportion of output: in 1993/94, of total production of 468 thousand tonnes, 6 thousand, less than two per cent of production, was exported (ABARE, 1994, p.180). Most countries are self-sufficient in chicken meat production, and only 11% of poultry enters world trade. However, the US, the European Union and Thailand are pressing for this situation to change.

How has this industry which is relatively small in terms of people directly employed achieved such success as an agri-food industry? On the production side, three significant things happened during the 1950s and early 1960s. The first development related to the realisation by stockfeed companies that part of their product could replace the "poultry farmers... own mashes" (Symons, 1982), thereby introducing transnational grain companies, such as Bunge, to a world of independent family farmers. Sourcing the animal feed off the farm broke the chain of self-sufficiency for grain inputs and assisted in facilitating greater grower specialisation. The second major event revolved around the release of Australia's first scientifically bred chicken meat strain, allowing poultry farmers to diversify from egg production, and to profitably engage in chicken meat production. Ironically, this also meant the chicken meat processors did not become as indebted to the feed manufacturers as they had in the USA. These developments, together with the introduction of chain processing systems within processing plants, allowed for the mass production of chickens. Production was transformed from small, labour intensive, cottage based systems to Fordist, mass production, capital intensive production systems. The third

¹ Telephone interview with Tim Luckhurst, Director of the ACGC, 22/8/96.

development was the vertical integration of the two of the long established poultry families (Inghams and Steggles) in the early sixties. This meant that the same company sought to own chicken breeding and hatching operations, feed mills and processing plants, while augmenting its own growing operations by contracting-out the rearing of chickens from day-old to slaughter weight. The order imposed by vertical integration was reinforced by the fact that, unlike the egg industry, the chicken meat industry would not accept a marketing board to align sales and production.

The effect of these production developments were important in transforming the industry. The first undermined the autonomy of farmers, the second granted early immunity against international companies taking control of the industry, and the third imposed order on the growing industry, whilst further diminishing the power of the farmers. The second and third developments also contributed to the high degree of concentration in the industry.

There were also significant distributional developments for the industry the 1960s. Mass production in Australia coincided with the capacity for mass storage, via freezers, and was quickly followed by mass distribution through networks of retail outlets - first with supermarket chains, then in 1968, Kentucky Fried Chicken opened its first store in metropolitan Sydney. Australia's own fast chicken outlet, 'Henny Penny' began in the same year. Expansion of barbecue and take away roast chicken shops was rapid. Between 1970-71, Kentucky Fried Chicken alone opened 75 outlets, and was responsible for a 38 per cent increase in chicken production in this period (ACMF, n.d).

The almost overnight potential for a mass retail market for chicken led to the price discounting wars of the late 1960s when Inghams and Steggles and at least one smaller operator in each of the states battled to get market share by offering the cheapest chickens possible. Frozen chickens became lead loss-makers and customer enticers for the supermarkets (Marshall, 1989). As a consequence processors had to be ruthless with inputs, and the input over which they felt they had most control was the contract growing fee paid to the farmer. The processors began to offer successively lower fees, leading to situations where farmers refused to take birds from the processors onto their properties. At the end of the

1960s state governments had to step in to mediate between growers and processors and, beginning with NSW, all States except Tasmania introduced legislation to regulate the contractual arrangements between farmers and processors.

Chicken Meat Industry Structure

The role of the state in the industry is one of the features of the Australian industry which differentiates it from its US mentor. Other significant differences from the US industry include the concentration of the industry, the dedicated operations of the farmers, the relatively disease-free environment, and, except for a small contribution to research, the absence of direct production subsidies. The Australian industry is far more concentrated than the US industry where the four biggest processors have only just recently achieved 50 per cent control of the market. Australian Bureau of Statistics (unpublished data) industry concentration figures reveal that the top 4 processors have a 77 per cent market share, but that figure does not reveal the complete picture as shown in table 3. Generally it is thought that the Big Two have a combined 65 per cent market share Australia-wide. However, the extent of domination varies from state to state - with the Big Two controlling over 90 per cent of the market in Tasmania, 86 per cent in South Australia, and 56 per cent in Victoria. All producers in the industry are Australian-owned and Steggles is the only one of the large producers that is a public company (part of Goodman-Fielder Ltd).

In 1985, the Prices Surveillance Authority (PSA) was asked to examine whether market power resulting from the concentration of the supply of chicken stock in the industry was being exercised in the setting of prices. The PSA found a curious arrangement operating between 1968-1980 which consisted of a few major players - Inghams, Steggles and Amatil (British Tobacco) - buying out small independent state-based companies around Australia and successively increasing market concentration. Through controlling the supply of day old chickens and through the control of processing, the large companies were in a position to put a cost and price squeeze on the poultry farmers. In 1980 Steggles was sold to Amatil leading to a near-duopoly arrangement. The PSA expressed

great concern about the lack of competition for the supply of day-old chicks - controlled effectively by Inghams, given that there had been a ban on importing avian breeding stock. Further, the PSA was not satisfied "that major processors related by ownership were operating at arm's length in marketing dressed chicken" (PSA, 1986, p2). Amatil subsequently began to sell all of its poultry businesses, culminating in its sale of Steggles to Goodman-Fielder in 1989. In that same year, another major development facilitated the expansion of what is known as the second tier of the industry, the 15 or so medium sized processors below the Big Two. The Torrens Island Quarantine Station was opened, allowing independent operators access to bird stock, without relying on the beneficence of Inghams and Steggles.

Table 3 Chicken Meat Industry Concentration 1996

Producer	Share of Chicken Meat Production (%)	No. of Chickens per Week (Millions)	Employees ('000)
Inghams	40	3.0	6.0
Steggles	28	1.8	2.7
Barter	10	0.5	1.1
Total market share of the above 3 producers	78	76	89

Source: compiled from information supplied by Australian Chicken Growers Council.

The production side of the industry has never attracted government subsidies, except for a dollar for dollar grant for research under the Federal Government Chicken Levy Act. Although the industry has not sought further assistance, the lack of export enhancement funds and import tariffs has become highly contentious in light of the pressure to allow processed chicken meat imports as well as the exhortations to export under the globalisation and international competitiveness rubric. While Australian producers face the prospects of trade liberalisation, the international market for chicken-meat is far removed from a 'level' playing field. The European Union imposes an import quota equal to 25 per cent of the market, the US imposes a 10 per cent tariff, together with restrictive licenses on chicken meat imports, and Thailand, one of the

world's largest producers, imposes a 60 per cent tariff. As far as exporting chicken meat to the growing Asian 'tigers', the tariff barriers are very high: 63 per cent in Malaysia, 70 per cent in Indonesia, 31 per cent in South Korea and 100 per cent in the Philippines. Many of these countries also impose quotas.²

This lack of government assistance leads to vulnerability for the local product from cheaper imports. In terms of the relative costs of inputs, feed accounts for 40 per cent, processing costs are about 25 per cent and farmer's fees account for 11 per cent (ACGC estimates, 1996). The significance of this cost breakdown became evident when the recent industry National Benchmarking Study revealed that feed makes up 58 per cent of the costs of live bird costs, and Australian grain was about \$87 per tonne higher than the subsidised grain in the USA in 1996 (Larkin and Heilbron, 1997). In this way statutory marketing arrangements for the grain industries in Australia directly disadvantage the chicken meat sector. With the exception of Bartters in NSW who grow their own grain and do not use contract growers, the processors have shown a remarkable resignation towards higher grain costs in Australia.

Just A Chicken Grower!

Chicken farmers joke amongst themselves about how they are viewed by 'real' farmers: the beef producer, wheat farmer, dairy farmer. Not only are their properties the smallest within agriculture, but their livestock is small. Possibly their biggest sin is that they do not even own their stock. This is how the term 'chicken grower' has come to replace farmer. The dubious honour of being a chicken farmer is reinforced by academic researchers who decry the contract farming system, arguing that: "broiler grow-out sub-contracting shifts capital and supervision costs while simultaneously concentrating the high value-added processing and distribution functions" (Kim and Curry, 1993, p76). However, there is another reading of the power of chicken farmer relative to other farmers.

2 All data from a submission by J. T. Larkin to the Senate Inquiry on Cooked Chicken Meat Imports.

even within a vertically integrated industry. This is the degree of collective bargaining they can exert, a power which is enshrined within State government legislation regulating the fee-setting arrangements for growing the birds. This capacity to be collectively represented was a hard fought for achievement from the 1960s and 1970s.³

The better remuneration of Australia's growers, and the less confrontation between grower and farmer in comparison to the US, can be attributed to the state government regulation of negotiations between growers and processors, and a strong collective ethos among the growers. State governments have introduced a measure of fairness in the negotiation process by establishing a system for negotiating growing fees and making the process of remuneration transparent, the absence of which contributes to very poor grower morale in the US.⁴

This fear was expressed to the authors by one grower who has been on all sides of the industry:

The Broiler Growing Act was established to create stability in the industry, to balance the power of processors over growers, and is anti-exploitative in its provisions. The processors believe that under deregulation they'll get a better deal ... in their wildest dreams, they'd be delirious if they got 5 cents reduction per chicken, but consumers would not get this discount - not on a chicken worth \$4. But 70 million chickens in Victoria to growers, 5 cents in 46.8 cents is significant. No, deregulation

3 One of the leaders of the farmers' strikes of that era and subsequent architects of the state legislation is currently the head of the Victorian Farmers Federation.

4 Following a study tour of broiler operations in the UK and the US the Chair of the Victorian Broiler Industry Negotiating Committee bolstered the picture of poor morale flowing from the individual grower to processor relationship. Referring to the US southern states where the bulk of the industry resides, he commented: "The contract format often is weighted in favour of the processor and usually does not provide for security of tenure for the grower"; "... considerable grower mistrust of the major processors has been engendered, and not without foundation". He concluded that "The manner in which absolute power has been exercised in some instances in the US regardless of legal or moral considerations is viewed by the author as offensive. US growers feel they are being consciously denied security of tenure (arguably fundamental to man's well being) as a bargaining ploy" (Taylor, 1996).

carries with it other connotations - the processor has the ultimate power - he doesn't need you, but you've got a purely dedicated operation. In one sense he needs the grower, but he can also manipulate his business to exclude individual growers, which in a deregulated environment would put exploitation of growers back to the 1960s⁵

The Australian Competition and Consumer's Commission (ACCC) has recently endorsed the collective bargaining approach as a transitional arrangement on the road to deregulation, arguing that it is in the public interest that the existing balance of power between very powerful processors and large numbers of relatively weak farmers be maintained. Although this is not necessarily an endorsement of the current legislation it supports the farmers' concerns about the impact of a deregulatory environment (ACCC, 1996).

Policy Shift I: National Competition Policy and The Shield of Crown

Processors have argued since the early 1990s that the collective bargaining of the growers is an anachronism, and that individual performance contracts should take their place. They seek processor to grower contracts, overseen by a code of practice, rather than processor/growers collective agreements ratified by a government committee. As one processor put it:

I hope for deregulation because its the only market segment to be regulated, and its a cost impost on the industry. It's totally deregulated everywhere else in the world and the Australian industry is not subsidised like everywhere else. Now that's a subsidy to broiler farmers. Now broiler farmers are worried about the unscrupulous processors. If we get deregulation I will leave my fee exactly as it is - I may even increase it. I will pay for performance. (Interview with medium sized processor, 1996).

5 Interview with Rod Fenwick, at this time a farmer and farmer's representative on VBINC, 22/3/96.

Government concerns with the lack of competition within the chicken meat industry have been long standing, and their concern coincides with processor desire to lower production side costs, not to address the high industry concentration on both the processing and retailing side of the industry. Following on from the 1993 Hilmer Report, the Federal and all State and Territory governments agreed in April 1995 to implement the National Competition Policy agenda (Ranald, 1995). All State government legislation which offer a 'shield of crown' protection to any group was to be reviewed. This means that the state laws which regulate the fee setting arrangements between chicken meat processors and growers are to be reviewed for any evidence that they hinder industry efficiency. However, 800 farmers bargaining with a handful of processors does not appear to either conform to the 'level playing field' fantasy or to the market ideal of a large number of buyers and sellers.⁶

In the Victorian Government's schedule of some hundreds of pieces of legislation which are to be reviewed between 1996-2000 under National Competition Policy (NCP), the Broiler Chicken Industry Act 1978 is set for review July 1998. In broad terms, NCP provides that legislative restrictions on competition should be removed unless a net public benefit can be shown in retention of any restrictions. Any exemptions must be explicitly included in the Trade Practices Act.

VBINC, the Victorian Broiler Industry Negotiation Committee, gives an insight into the workings of state-sponsored grower-processor relations around the country. The Committee, appointed by the Minister for Agriculture, has 11 members, four representing broiler growers, four representing processors, two independent members with commercial expertise and an independent Chairperson. Its objectives are:

6 This will be familiar in the light of industrial relations 'reforms' that embody the labour market principle that individual employees can reach individual contracts with employers on a fair and equal basis. Unequal bargaining power evokes powerful images for some farmers though. Writing in the *VFF Newsletter*, the director of Victoria's Chicken Meat Group questioned whether the removal of the shield of crown would send things back "to the dark Middle Ages, where serfs work the land of the large landowners disguised today as companies? How long before we have to pull our forelock again when speaking to representatives of the landlord?" (Vorstermans, 1966, p21).

- to create an environment and develop processes that facilitate agreements between growers and processors;
- to determine prices and recommend terms and conditions that would apply under fair and competitive market conditions; and
- to ensure that the exploitation of growers does not occur (Broiler Chicken Industry Act 1978, section 8A).

The Committee makes recommendations on terms and conditions of contracts, determines disputes between growers and processors, and determines the standard (or state-wide) fee and the limits and circumstances under which the standard fee may be varied. The Committee has determined that the standard fee may be varied by plus or minus 3 per cent in accord with processor productivity (e.g., processor batch rates, bird density and bird mortalities relative to the productivity levels in the standard fee model).

The growing fee is a payment for labour, management inputs, operating costs (e.g., gas, water and litter material) and a return to capital invested in shedding the poultry. A significant feature of the Australian system hammered out between growers and processors is the pool payment system, which is akin to collective bargaining coupled with individual gain. It is valued by most as introducing a competitive element into a regulated industry. Whereas pools operate in the US within a context of secrecy, it is the transparency and fairness of the system in Australia that is valued by growers.

In 1987, the Victorian Public Bodies Review Committee reported to Parliament on the operation of the negotiation committee, established under that State's legislation. It reported that it "represented an innovation in agriculture commodity marketing in that it focussed on establishing a process for generating accord on a voluntary basis rather than introducing compulsory controls" (VPBRC, 1987, p17). The Committee concluded that "When difficulties have arisen such as market share shifts, it has introduced mechanisms to assist adjustments which have minimised socio-economic hardship. Moreover, it represents a relatively rare type of public body that operates on a self-help philosophy with legislative backing and at minimal expense to the public and private interests involved" (VPBRC, 1987, p41).

In South Australia, given the clear dominance of the Big Two processors in that state, the Liberal Government introduced legislation in 1996 to repeal its Poultry Meat Industry Act (1969-96). In a discussion paper prepared for the State government by the industry's historian Des Cain, Inghams and Steggles argued that between a dozen and twenty farms (out of the present eighty) are not viable. According to Cain, "The farmers in turn complained they were under-rewarded and felt their (asset specific) investments were in jeopardy" and, "they are fearful that without this Shield of Crown they will be in a weak and impossible position to negotiate with the two powerful processors" (Cain, 1996, p5).⁷ The Bill to repeal the South Australian Act has been stuck in the Upper House since June 1996. In the meantime, Inghams applied to the ACCC to be able to continue to collectively negotiate a standard five year growing contract with its contract growers in SA. In granting the request for four years (whilst the industry passes through its transition phase to a deregulated market) the ACCC made the following observation:

The chicken industry is highly vertically integrated with two large processing companies controlling 86 per cent of the South Australian market. Chicken growers are required to make significant capital investment in sheds and equipment that have virtually no alternative use, but never own the chickens or many of the inputs in the chicken growing process (ACCC, 1996, p i).⁸

The ACCC report does not explain how the growers' position is going to improve following deregulation. Why will collective negotiations no

7 Cain recommended the continuation of the Poultry Meat Industry Committee but with an expanded membership, adding that the "main difference is the Committee will no longer be able to dictate terms of an anti-competitive nature" (Cain, 1996). However, what is missing from the Code of Conduct is a dispute resolution procedure.

8 The ACCC then proceeded to state that it was: "satisfied that the anti-competitive effects of Ingham's proposed arrangements are outweighed by the public benefits, .. (which) include: assisting a smooth transition from regulation to deregulation, which will ensure lower adjustment costs for the South Australian industry; providing chicken growers with countervailing market power; and a decrease in transaction costs resulting from the collective negotiation process that should result in lower retail prices" (ACCC, 1996).

longer be necessary after five years? Indeed the Inghams' submission argued that the public interest lies in collective negotiation because:

growers do not have the resources and expertise to negotiate with Inghams individually, in the same capacity as they would have acting jointly. Acting jointly will ensure a more equitable and harmonious system that can drive efficient and long term growth for the industry (ACCC, 1996, p12).

However, Inghams did point out that:

the fee may be higher on average than that which would arise from individual negotiations with growers. However, Inghams argues that the detrimental impact of the proposed arrangements on the consumer is very low (ACCC, 1996, pp12-13).

The ACCC further commented that:

A market in which participants have unequal bargaining power is likely to operate less efficiently than one in which bargaining power is equal. The Commission accepts that the present arrangements increase the countervailing power of the growers ... Therefore, the Commission considers the increase in countervailing power of the growers that will arise from the proposed arrangements constitutes a public benefit (ACCC, 1996, p19).⁹

9 The ACCC echoed the logic put forward by the executive officer of the national grower's group who pointed out: "assessing public benefit where the growers are concerned would be hard to measure. The grower's service fee represents less than eight per cent of the retail price of chicken meat. The difference between an equitable level of return to the grower and a level of return that represents exploitation would be almost too small to measure at the retail or consumer level" (Luckhurst, *Australian Chicken Farmer*, p4, Aug/Sept 94).

Policy Shift II: Relaxing Quarantine Regulations to Allow Imported Chicken Meat

According to the long-time Executive Director of the Australian Poultry Industries Association:

The most important factor in the regulatory area has been quarantine. The poultry industry's willingness to invest capital in the past has been undertaken on the assumption that the strict quarantine regime, which ensures that serious overseas poultry diseases cannot enter Australia, would continue...The impact of a disease outbreak on an intensive livestock enterprise such as poultry could be devastating. The very rapid death of birds, lost production, and adverse image of the product in the perception of the consumer, could well risk the whole basis of the poultry industry... (Fairbrother, 1992, p2).

The Australian Quarantine Inspection Service, AQIS, is the government instrumentality that has the greatest potential impact on the industry: both in its past decisions regarding home-grown or imported birdstock and in its present deliberations regarding the future importation of chicken meat products. AQIS is playing a pivotal role given the pressure, over the last six years, from at least three countries for Australia to relax its ban on imported chicken meat. On the surface, the industry appears united in its opposition to such a scenario. It is debatable which parts of the industry would be most affected, although estimates suggest a decline of between 2 and 15 per cent in local production (on a bird basis) and the loss to the industry of \$250 million in turnover. Some argue that only the US owned fast food industry would benefit (Eco-consumer, 1995), while it is possible to surmise that the supermarkets would also benefit, given their actions in relation to the importation of Canadian pork¹⁰.

In 1991, AQIS circulated a Risk Assessment Discussion Paper which, among other things, reported on the avian disease status of different countries. For example, it described Infectious Bursal Disease virus

¹⁰ This was the thrust of farmers' questions to Bernie Brooks from Safeways at the 10th Annual Poultry and Feed Convention, Melbourne, 17/10/96.

(IBDv) as absent from Australia, but reported that virulent strains were present in the USA, Europe and Asia. The paper set out how the virus is resistant to heat, and that contaminated carcasses can act as vehicles for virus spread. On the basis of the responses to the discussion paper, AQIS (1994) released a Position Paper: *Importation of Cooked Chicken Meat from the USA, Thailand, and Denmark*. In the introduction it made the point that:

It is very much in Australia's interests to ensure that unjustified technical barriers are not put in the way of our exports. As a member of the GATT, Australia also has obligations not to use quarantine as a non-trade barrier to trade. Any restrictions placed on access to the Australian market must be based on grounds which will stand up to international scientific scrutiny (AQIS, 1994, p1).

The Australian Veterinarians' Association (AVA), APIA and ACGC each opposed importation. The AVA was particularly concerned about masked flock infection and the cross-contamination during processing. Another concern was that native birds may get infected through feeding on inadequately cooked chicken carcasses. AQIS replied that native birds could come into contact with diseases via migratory birds anyway.

The public responses most supportive of lifting the present ban came from the three exporting nations and from an agent, The Meyers Strategy Group (MSG), for a large, unnamed, US fast food chain. The US Department of Agriculture argued in correspondence that AQIS was unrealistic to choose a worst case scenario, instead of "applying modern techniques of risk assessment" (AQIS, 1994, p13). It said it was not optimistic "that rational arguments will do much to open the Australian market" (p13), and expressed reservation that Australian officials had been unduly influenced by the local poultry industry. MSG argued in its submission that the proposal to import chicken meat was "highly unlikely to result in the introduction of IBDv", but suggested "random testing for IBDv in patties on arrival in Australia" (AQIS, 1994, p15).

On the basis of only seventeen submissions, extensive lobbying by the benefiting countries, especially by the USA, one scientist's unpublished benchmarking of the risks, qualified support from two CSIRO scientists.

and in the face of opposition from the entire Australian poultry industry and our premier veterinary body, AQIS concluded that:

In general, it may be presumed that most respondents are in agreement with the fact that cooking chicken meat at temperature/time regimes indicated in the risk assessment discussion paper would be sufficient to eliminate all pathogens of concern.... Respondents opposed to the importation of cooked chicken meat have not provided scientific reasons to justify a ban. AQIS recommends that importation of cooked chicken meat be permitted from the USA, Thailand and Denmark... (AQIS, 1994, p24).

In its low-key response of 1996, *Australians Deserve the Best*, the Australian Chicken Growers Council argued that the importation of cooked chicken meat would create public health risks, endanger Australia's native bird and poultry flocks, and result in the loss of up to 20 per cent of the 16 000 jobs it says are directly related to the industry. The council also pointed out that the National Food Authority includes the likely imported chicken products in the highest risk category from a human health perspective. The public health risks singled out are Salmonella enteritis, and the use of therapeutic drugs in birds overseas that are banned here (ACGC, 1996). The claim on this last point is given support through figures on veterinary and medical inputs contained in the National Benchmarking Study. Australia has by far the lowest veterinary costs of any country, reflecting healthier bird flocks (Larkin and Heilbron, 1997).

The ACGC pointed out that the Federal Government will introduce 'an extraordinary, unlevel playing field' if it approves importation. It says both the US and European countries "subsidise their poultry industries through the use of import control levies, subsidised feed for growing purposes and the use of therapeutic drugs" (ACGC, 1996). The US levies a tariff of 10 per cent on prepared meat and imposes strict veterinary conditions on imports. Only the UK, France and Canada presently meet US veterinary requirements. It seems incongruous that while the US upholds a non-tariff trade barrier on Australian poultry exports, Australia is taking steps to relax quarantine restriction in order to facilitate a US import application.

The relevant trade unions have been arguing for several years that process workers' jobs will be lost. In addition to lost jobs, the point was made at a Poultry Industry Protection Summit convened by the NSW Labor Council in August 1992, that lost local chicken production would reduce the demand for local stockfeed. Stockfeed production would be reduced by around 200,000 tons, and as a consequence 100-130,000 tonnes less of wheat would be required from Australian wheat growers (worth around \$15-20 million per year). Overall, the union movement argued that:

Investment in the Australian poultry industry would come to a standstill and progress of the poultry industry towards further development within the Australian processed food sector would be stalled in the wake of significant subsidised import penetration (*Australian Chicken Farmer*, Sept/Oct. 1992, p11).

In 1996, the National Union of Workers expressed concern that importation could lead to the loss of 2000 of the 9000 process worker positions in the industry (NUW, 1996, p6). Female employees who make up more than 50 per cent of process workers would bear the brunt of any such cuts, as would the regions in which the process plants are sited, such as the Central Coast of NSW and the Gippsland and Bendigo areas of Victoria. These are all typically outer-metropolitan and semi-rural regions. In NSW around 60 per cent of the chicken producing farms are located in the Hunter Valley and Central Coast regions, both areas of relatively high unemployment.

In a clear example of how international trade issues impinge on domestically oriented industries, rumours are rife that "countries that import Australian beef want equal access to export their chicken products into Australian markets" (Pettafor, 1995, p8). Given that Australia is the biggest red meat exporter in the world, the chicken industry suspects the lobbying efforts of the beef and lamb producers. This was made clear on an ABC television news report from the National Farmers Conference (September 10, 1997) where beef producers were advocating the immediate lifting of the ban on chicken imports claiming that their market access in Thailand was at risk.

One of the first acts of the Minister for Primary Industry on assuming office was to establish a Senate Inquiry into the importation of cooked chicken meat. In answering questions the Executive Director of AQIS pointed out that too many of the opponents of cooked chicken meat imports argued for the adoption of a 'no-risk' position, where he and AQIS argued that a 'no-risk' position was untenable and unrealistic, and that AQIS must make decisions without unreasonable delay. "It is essential, therefore, that we do not stretch too far the unreasonable expectations of our trading partners and other interested parties of a decision on this matter". The key interested party appears to be the World Trade Organisation, as it was stated that:

.... if AQIS, and indeed Australia, is to honour its obligations under the sanitary agreement of the World Trade Organisation, there will continue to be processes of risk assessment leading to decisions that have regard to concepts of acceptable and manageable risks (RRA & TL Hearings, *Hansard*, 1996).

After two days of sitting and consideration of 23 submissions, the Senate's Committee on Rural and Regional Affairs and Transport Legislation produced a report endorsed by all political parties. The report concluded that it did not have faith in the heat treatment process for imported chicken and ordered further tests. The Committee recommended that AQIS "commission tests of the thermal inactivation of Newcastle disease virus and infectious bursal disease virus in chicken meat products. This study should be considered in conditions that are as close as possible to commercial processing conditions" (Senate Committee on RRA & TL, para 3.39).

Minister Anderson awaits these further tests, but has publicly signalled that he will approve chicken meat imports as soon as possible, given that there is no scientific basis to undermine the earlier AQIS recommendation. "The Minister stated ... that he was satisfied with the scientific basis of the cooking parameters proposed, but requested a final round of trials to confirm the effectiveness of cooking parameters developed by AQIS in inactivating avian viruses of concern, following public concern over the possible consequences of an introduction of Newcastle Disease" (AQIS *Bulletin*, vol 10, no 2, 1997).

As this article goes to press the government has announced its decision. Cooked chicken meat imports from Denmark and the USA are to proceed, but under stringent cooking conditions (70 degrees Celsius for 140 minutes) that all but renders the chicken unfit for human consumption (Taylor, 1997). The ban on cooked chicken meat from Thailand remains in place. This decision was presented in the media as a back-down, as compromising free trade and as political decision to protect marginal coalition held seats (Burton, 1997). It was also announced that Denmark and the USA are likely to appeal the decision at the WTO (Maguire, 1997). At the same time Minister Anderson announced a lifting of the ban on uncooked pork meat. This helped to bolster Australia's free-trade credentials.

The Global Chicken Has Reached Australia

For most of its history the Australian chicken meat industry has been oriented towards the domestic market. However, the industry's long standing reliance on product ideas, technologies and inputs from other countries - most notably, the USA, UK and the Netherlands - has given the industry an international orientation. While it is conceivable that Australia could be self-sufficient in cereal feed and vaccines, and was once able to do without imported bird stock, the industry would not exist without imported processing equipment from the EU and the USA. However, this imported equipment is being designed to take birds of uniform size - a synergy is required between bird stock, feed inputs and processing equipment - so the trend towards a global chicken is dictated by the technology.

The Australian industry is also reliant on imported genetic material, because the local cost of genetic replacement is so high. Another effect of the imported bird stock - particularly the faster growing types with high energy feed requirements - means importing more of the feed so that the optimal meat conversion rates are achieved. As has been pointed out, "the importation has created significant links between the Australian industry and multi-national poultry breeding companies" (Cransberg and Parkinson, 1996, p1). One of the most popular breeds comes from the largest international poulturer, the US Tyson firm .

In relation to the dairy and vegetable industries, Pritchard (1995a) has reasoned that previous domestic decisions about technological investment facilitate the flow of global capital, giving global restructuring a distinctively local flavour. The decision taken a decade ago by the medium sized processors, unable to get day-old chicks from the two major processors, to use imported avian stock, will shape the industry's future and bring the global chicken a step closer. This has also undermined the prohibition on imported chicken meat since the industry imports quarantined breeding stock while supporting the ban on chicken-meat imports.

Australia As A Chicken Meat Trader?

For over a century Australia's agricultural industries have been enveloped by, and oriented to, international trading relationships. Until recently the national interest was pursued through self-sufficiency in all but the most exotic foods, alongside the export of agricultural commodities. Australia has championed the freeing up of world agricultural trade in many forums, and most vigorously through the leadership of the Cairns Group (Lawrence, 1987). More recently there has been formal bipartisan support for the elimination of the trade deficit, with emphasis upon exports as opposed to import replacement or other strategies. Within the food sector there is the view that Australia can become the food basket for Asian markets which are expanding in terms of population and income. The Westernisation of Asian diets will generate a demand for many of Australia's agricultural products. This view has recently dominated many corporate strategies in Australia, including Pacific Dunlop's ill fated investments in the agri-food sector (Pritchard, 1995b). An Asian Market Opportunities Study was commissioned as part of the National Benchmarking Study of the chicken meat industry. The reasoning here was that domestic production losses caused by imports could be offset by Australia exporting to Asia. The overriding conclusion reached by the report was the difficulty of exporting chicken, given that the level of tariff protection against chicken meat imports is extremely high right across Asia (Larkin and Heilbron, 1997).

The exports-to-Asia mania is revealed in the profile of foods Australia is promoting there, emphasising beef and dairy products which are foreign to most Asian palates. Enormous niche marketing finesse and retail support infrastructure in the importing countries are required. Ironically, chicken and pork are already part of many Asian culinary cultures which implies that (with the exception of Japan) most countries have been self-sufficient producers of these commodities for some time. It also suggests that, as populations and incomes grow, the demand for chicken meat will grow. However, Asia also has on its door step one of the most successful low cost producers and exporters of chicken meat, Thailand. Furthermore, Australia's capacity to compete against countries with huge volumes and throughput was questioned in the National Union of Workers' submission to the Senate Inquiry. Achieving comparable economies of scale is as important as lower wage structures in the debate about industry efficiency¹¹.

Chicken: The Sacrificial Lamb on the Free Trade Altar?

The federal government has been a significant contributor to the shape of the chicken meat industry, first and foremost through its quarantine laws, and to a lesser extent through trade practices and consumer legislation. Furthermore, since the 1970s all State governments, with the exception of Tasmania, have played an important role through their respective broiler growing Acts. These have legitimised collective negotiations between chicken growers and processors, and in this way have contributed to stability within the industry. The recent National Competition Policy is foreshadowed by all in the industry to bring significant changes to the industry's operations, through challenging the existence of this legislation. This change, along with changes to the quarantine laws in the last decade, will unsettle what has been claimed to be Australia's most successful meat industry (Blackett, 1970; Larkin, 1996). By running down the nucleus breeding program and relying on

11 Where Australia produces 7m broilers a week, the US produces 141m. Thailand produced 685 metric tons against Australia's 435 metric tons in 1993 according to the ILO Report *Safety and Health of Meat, Poultry and Fish Processing Workers*. 1997.

the importation of avian stock the local industry has tied itself directly to overseas' input markets for the breeding stock and associated protein mix and feed additives. The new-found reliance on imported chicken stock and its susceptibility to Marek's disease, and teething problems with managing that stock, coincides with the current temporary under-production in the industry¹².

The Australian industry, modelled as it has been on the US, may fall victim to that country's huge operation. In a recent analysis of the success of the US broiler industry, Aull-Hyde *et al* (1994) pointed out that the continued over-production for local consumption means that the US needs to tap the export market, and it is particularly targeting the Pacific region. One has to see these changes in the context of the rhetoric of globalisation and free trade. The push for free trade corresponds to the ambitions of global corporations (Pritchard, 1995a;1995b) and it is no surprise that the most active supporters of free trade happen to be representatives and associates of global corporations (Skclair, 1996). In the agri-food sector the US, along with Europe, occupies a contradictory and hypocritical position. These countries use bilateral means to prise open the markets of other nations while retaining an elaborate and extensive program of home protection through licenses, quotas, tariffs and export incentives (Brooks and Carter, 1994). It is the large US-based corporate agri-businesses that receive the bulk of agricultural assistance in the USA. In turn they seek export markets for their subsidised surpluses which in turn earn export subsidies from the US government (Brooks and Carter, 1994, p. 164).¹³ This is the real political economy context of the push for free trade in agriculture. As McMichael and Myre (1991, p.59) commented:

the institutions and mechanisms of the global regime are setting the terms of political debate and economic policy. As a result, there is a growing tendency for the State to act more of a facilitator of the requirements of global capital.

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- 12 Bartter was one of the first importers' of avian stock, viz. the ASA bird from Denmark, but it has been among the first to reject imported stock given the mortality rates of the ASA bird, and is developing its own "Bartter Bird".
- 13 Frozen poultry exports from the USA had accumulated over US\$140m.worth of export enhancement payments in 1992 (Brooks and Carter, 1994).

However, the Australian government is not simply responding to WTO pressure; it is also responding to the domestic demands of agricultural elites. Beef exports generate over \$3bn. per year, while chicken exports are \$11m. per year. Since the demise of mixed farming and the rapid growth of specialist farms, commodity complexes have developed. It would seem that rivalry between commodity sectors will undermine Australia's agri-food industry just as effectively as foreign investment and take-overs and the government embrace of global trade in agriculture. Australia is forging a new understanding of commodity complex interdependence: a whole-of-agriculture focus on exports, even if it means accepting imports for highly vulnerable domestic sub-sectors. That is, the prime consideration is export growth and export market access for the total sector. Within the relevant Victorian government departments, for example, a commodity hierarchy is evolving. Those commodities which earn the greatest export dollars are known as high impact industries. The low export-earners, chicken and pork, are referred to as low impact. In turn, the high impact commodities receive the greater share of research and development funds and status¹⁴.

Australia has long been an international agricultural commodities trader. Equally it has enjoyed a reputation for feeding its people on locally grown, clean, cheap, varied foods. The danger in pursuing the former within the existing parameters of global free trade is to compromise the latter. Australia's national food security will increasingly depend on international food hygiene protocols and risk assessment procedures, rather than the policy of self-sufficiency of fresh product which has ruled for most of this century.

Quarantine regulations do provide direct protection to local industries. However, a 'minimal risk' position associated with disease surveillance could be potentially devastating for the industry and for native bird life. Against this, imported processed chicken will confer a price advantage in the short-term to consumers. It will also enable supermarkets and fast food chains to bargain more effectively with the few local processors.

14 Interviews with officers of the Department of Natural Resources and Environment, and the Victorian Institute of Animal Science over the months of September to December, 1996.

The consequences of imports combined with the loss of the collective fee setting arrangements will be fairly predictable: fewer producers, lower returns, less employment and more stress on vulnerable regional economies. This is a recurring story for Australia; the full impact of the 'industry adjustment' will fall disproportionately on those regions which do not possess alternative employment and already suffer higher than average unemployment rates. In this context it is not surprising that protests against chicken imports, involving processors, unions and growers have been held in such regional cities as Maitland in the Hunter Valley of NSW (ABC, radio news, September 8, 1997).

Equally predictable is that export growth for processed chicken will be minimal in a region dominated by high tariff and non-tariff barriers and in an international market dominated by highly subsidised producers. The *realpolitik* of the changes the industry face must be seen in a context of where the losses in one sector can be traded off against the potential gains for other meat producing sectors in terms of export market access.

The above conclusions are not invalidated by the recent lifting of the chicken meat import ban but under arrangements which effectively continue to prevent cooked chicken meat imports (Burton, 1997). This can be regarded as a compromise decision by the government that effectively protects the local sector for the time being, yet at the same time gives the appearance of embracing free trade principles. In this case the tarnishing of free trade credentials was offset by the simultaneous announcement of the lifting of the import ban on uncooked pork meat. While this decision assists Australia to open up protected markets for its main agricultural export products in Asia, it highlights the vulnerability of small (non-export) agricultural sectors in the political economy of agricultural trade liberalisation.

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