Agricultural Competitiveness White Paper –
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World Society for the Protection of Animals
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WORLD SOCIETY FOR THE PROTECTION OF ANIMALS

SUBMISSION TO

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DEPARTMENT OF THE PRIME MINISTER AND CABINET

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Introduction

The World Society for the Protection of Animals (WSPA), is pleased to accept the Minister for Agriculture's invitation to provide input to the White Paper process to "ensure agriculture remains a significant contributor to the economy and regional communities"[1]. Our input focuses on livestock exports in relation to two issues, the strength of the agricultural sector (in particular livestock) and its contribution to regional centres and communities, and Australia's contribution to global food security. Both of these are referenced in the Agricultural Competitiveness Issues Paper[2] as issues to be considered in the White Paper.

Specifically we pose two questions:

- Do live exports contribute to the strength of Australian agriculture?
- Do live exports contribute to food security?

Our responses to both are negative. This submission argues why this is so and why the alternative, the export of meat only, would provide a positive answer to both questions.

DO LIVE EXPORTS CONTRIBUTE TO THE STRENGTH OF AUSTRALIAN AGRICULTURE?

WSPA contends that live exports do not strengthen Australian agriculture, for the following reasons.

1. **Australia's live export trade of slaughter animals, especially sheep, is largely driven by the tariff and subsidy regimes of destination countries.**

The distorted price signals from importing countries favour the importation of live animals over the importation of Halal killed meat from Australia and act against the broader interests of Australian agriculture. The majority of Australia's live sheep exports are to the Gulf Cooperation Council (GCC) countries[*] and all of them, with the exception of the United Arab Emirates (UAE), levy a 5 per cent *ad valorem* tariff on imported frozen and chilled sheepmeat and edible sheep offal. They also heavily subsidise the price of meat obtained from live sheep imports. The International Monetary Fund (IMF)[3] estimates that in 2011 alone countries across the Middle East and North Africa provided food subsidies in the order of $US21.9 billion. Kuwait subsidised the importation of Australian sheep in 2012/13 by some $US39 million and Qatar spent about $US47 million on subsidies for Australian sheep imports in the first half of 2013[4]. Jordan, a non-GCC destination for Australian sheep, also heavily subsidises their importation, estimated at US$318 million in 2013[5].

How long the GCC countries and Jordan will be able to afford such subsidies is uncertain. Alistair Davey[6] notes a Chatham House briefing has warned that the fiscal position of GCC governments is coming under increasing strain from ballooning public spending as populations rise and hand-outs become more generous. So continuation of subsidies is arguable. But what is not arguable is that Australia's processed sheepmeat exporters and live sheep exporters are not competing on a level playing field. By diverting resources to a lower value use, that is, live exports with less value-adding than there is with domestic processing, Australia as a whole is economically worse off despite the fact that those relatively few farmers producing animals for the live trade benefit from it.

[*] GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

2. **The live trade and the domestic slaughter trade compete against each other for suitable animals.**

Regarding cattle, Meat and Livestock Australia (MLA), in its projections for 2014[7], states,

> "Adding to the expected strain upon cattle supplies for 2014 and 2015 will be a forecast improvement in the competitive position of buyers sourcing cattle for the live trade. While there is always competition between the slaughter and live trade for suitable cattle, this is expected to be heightened over the next two years due to the reduced overall supply."

Regarding sheep the MLA notes in its projections for 2014[8] that,

> "A significant challenge for exporters will be in securing adequate volumes of suitable sheep, given a combination [of] the record level of sheep turnoff in 2013 and the expected strong processor demand in 2014."

In 2012 the Western Australian Minister for Agriculture and Food, the Hon. Terry Redman said in a Ministerial Media Statement[9],

> "It is clear to industry that sheep numbers are precariously balanced with insufficient supply to meet demand and allow for flock rebuilding, risking a loss of processing capacity and markets as well."

These statements are important. They expose as false the claims made by proponents and supporters of the live export trade that domestic processing and live exports are not in competition.

3. **Domestic sheep and cattle prices underpin live animal prices, but live exports can exert downward pressure on domestic prices.**

The domestic price, the base price farmers realise when they sell their livestock through saleyard auctions, over-the-hooks, or paddock sales, determines the floor below which live export prices will not fall. But if animals that would otherwise be exported come onto the domestic market (because of the unavailability of their original destination or because of the need for farmers to down-size their flocks and herds due to drought), the interaction of supply and demand will exert downward pressure on the domestic price. In the short term this downward pressure may lead the market to "overshoot" such that the domestic price falls by more than it should.

WSPA argues that this downward pressure is pervasive because of the frequency of animal welfare incidents in the live export trade. For instance, the Department of Agriculture's website shows that in 2013, the first twelve months of full operation of the Exporter Supply Chain Assurance System (ESCAS), there were 17 complaints made about ESCAS breaches. Since the purpose of ESCAS is to assure the welfare of Australian animals in the live export supply chain through to their slaughter, the number and frequency of ESCAS breaches and community reaction indicates that at best community confidence in ESCAS is fragile.

4. Live exports have a negative impact on (regional) employment.

The competition for animals for domestic slaughter or for export impacts (regional) employment. As long ago as 2004 a Western Australian Government Ministerial Taskforce[10] noted that the growth of the live export trade had been one of the more significant reasons for excess capacity in the processing sector. The taskforce noted that in November 2002 there were 23 licensed abattoirs in Western Australia processing cattle and/or sheep, a number significantly less than in previous years. The majority of Australia's live sheep exports are sourced from Western Australia. In February 2014 there were 14[11]. The Western Australian Department of Agriculture and Food found in 2011 that Western Australia's major processing facilities at that time were operating at an average of 59 per cent of capacity[12].

The corollary of live exports having a negative impact on employment is that a transition to domestic processing would have a positive impact. WSPA believes this would be so. We estimate that just over 2,000 people are engaged in sheep and cattle processing in Western Australia[13]. On the basis of industry data made available to us we estimate that if the 2.0 million sheep exported in 2013 were processed domestically, there would be 650 new jobs created. Similarly if the 776,000 cattle exported in 2013 were processed domestically, there would be 1600 new jobs created. Neither of these estimates includes jobs created in industries which use by-products from sheep and cattle processing such as the oil and fat and leather and leather products industries, or the multiplier effect of these industries.

Negative employment impact arising from a transition out of live exports would be minimal because the supply chains for domestic processing and for live exports are similar up to the point of delivery – to the port of departure or to the domestic processing plant. There would still be required agents, road transport, veterinary services, fodder production, shearing contractors and the like. The negative impact would be restricted to port authorities, stevedores and providores, ships' agents and owners, and maybe some government agencies. But these are not solely dependent on the Australian live trade and any negative impacts would be outweighed by the additional jobs created.

In addition, a transition away from live exports to domestic meat processing would likely create more job opportunities for indigenous Australians. There are more employment opportunities in meat processing than in live exports, and meat processors generally encourage and support the participation of indigenous Australians in the industry. For example, the Australian Agricultural Company intends that at least 10 per cent of the 350 direct jobs it will create at its new processing plant under construction in the Northern Territory will be filled by indigenous Territorians[14].

A transition to domestic processing need not impact the opportunities for indigenous Australians in livestock production at all.

Of note is the opportunity afforded young indigenous Australians for training by the Indigenous Land Corporation owned Gunbalanya Station and Gunbalanya Meats business in Arnhem Land, 320 km east of Darwin. The meatworks was opened in November 2010 and processes beef from the indigenous-owned Gunbalanya Station. We understand it is intended that the station and meatworks will become the finishing point for the Indigenous Land Corporation's northern Australian herd.

5. Live exports do not provide opportunities for value-adding; instead they transfer value-adding opportunities to destination countries. There would be net economic gain if those animals exported live were slaughtered domestically and their meat exported.

When something is produced it moves through stages of production. Value is added at each stage and finally, at the last stage the product is given a market price. With live exports there is little value-adding.

Australia is a high cost economy, the Organisation for Economic Cooperation and Development[15] (OECD), rates it as having the fifth highest average wage rate out of the 34 OECD countries, after only the US, Switzerland, Luxemburg, and Ireland. In a high cost economy it is important to make products that consumers in international markets want and are prepared to pay for. This was stressed in recent comments by Murray Goulburn's managing director, Gary Helou, and SunRice's chief executive, Rob Gordon[16]. Australia's ability to do this is demonstrated by the increasing demand for imported Australian slaughtered Halal lamb and mutton and beef. Imports to the Middle East in 2013 were reported by the MLA[17] as 59,800 tonnes of lamb, 40,900 tonnes of mutton, and a record 61,000 tonnes of beef[18]. Middle East consumers are clearly prepared to pay for the value-added, even in the face of tariffs and subsidies.

By exporting live animals Australia foregoes the opportunity to earn value-add revenues. ACIL Tasman (2009)[19] found that the post farm-gate value added by processing sheep domestically in WA and exporting sheepmeat was between $7 and $12 per head compared to live exports. Applying these numbers to the approximately 3.5 million sheep that were exported in 2009 shows that between $A24.5 and 42 million in post farm-gate value added was foregone in that year alone.

6. Live exports are relatively insignificant economically and any significance is outweighed by the negative impacts and risks attaching to the trade.

The live export trade in sheep and cattle for slaughter overseas is not a major contributor to Australia's national economy. In 2012-13 it accounted for 0.18 per cent of Australia's exports, the total value of which was A$301.5 billion. Meat exports accounted for 2.14 per cent, that is, they were almost twelve times more valuable.

Processed meat exports (2012-13)	**Kilotonnes**	**Value (A$ millions)**
Beef and veal	1,013.9	4,865.8
Lamb	200.6	1,086.3
Mutton	143.6	478.0
		6,460.1
Live slaughter animal exports (2012-13)	**Head**	**Value (A$ millions)**
Sheep	2,000,000	194.0
Cattle	513,000	338.6
		532.6

(Source: ABARES agricultural commodity statistics 2013)

Even in the Middle East, the main destination for Australia's live sheep exports, the value of lamb and mutton exports, at A$489 million in 2012-13 was more than 2.5 times greater than the value of live sheep exports[20]. And in Indonesia, the main destination for Australia's cattle exports, the value of beef and veal exports, at A$132.4 million in 2012-13 was closing in on the value of live cattle exports at A$164.5 million[21].

The Australian Agricultural Co estimates that its new processing plant at Livingstone in the Northern Territory will inject about $126 million annually into the local economy[22]. This validates ACIL Tasman's finding (2012)[23] that processing cattle in northern Australia rather than exporting them live could add more than $200 million annually to northern Australia's Gross Regional Product. ACIL Tasman (2009)[24] also concluded that exporting sheep meat is 20 per cent more valuable to WA's Gross State Product than is exporting live sheep.

Another measure of the importance of an industry to an economy is the number of people it employs directly or whose employment it underpins. The Commonwealth Department of Agriculture claims that in 2009 the live trade underpinned the employment of about 10,000 people. The Australian Meat Processor Corporation maintained in 2009-10 that the red meat processing industry underpinned more than 148,000 full-time equivalent jobs across all sectors of the economy[25]. A 2014 IbisWorld meat industry report snapshot[26] indicates there are more than 32,000 people and 587 businesses engaged in meat processing in Australia.

As discussed earlier in this submission the negative employment impacts that would arise from a transition out of live exports would be minimal and outweighed by the additional jobs created. Also, there would be the reduction in risks to farmers whose business plans rely on live exports;

- risks deriving from interference in the market by governments of live animal importing countries,
- risks deriving from the long recognised pattern that as economies grow and peoples' incomes rise they generally prefer to buy their meat in convenient and packaged cuts from modern retail outlets rather than from outdoors "wet" markets,
- risks deriving from the narrow "spread" of live export markets, and
- animal welfare risks.

7. At a community level the live export trade contributes to and exacerbates a growing rural-urban divide in Australia.

Agriculture takes place in a number of contexts, one of which is community values. Important as it is for agricultural enterprises to comply with laws and regulations perhaps a more important challenge is for them to maintain community trust that they can produce high quality and high welfare agricultural products in ways that reflect community values. Ultimately it is Australian community values and expectations (the social licence to operate), that determine the legitimacy and sustainability of any enterprise.

Encouragement from the Australian Government for the export of Australian reared animals for slaughter overseas seemingly without similar encouragement for domestic processing, against a background of persistent animal welfare failures associated with live exports, and in the face of animal welfare increasingly becoming a mainstream issue in the community, risks exacerbating community differences, is at odds with community values.

DO AUSTRALIAN LIVE EXPORTS CONTRIBUTE TO GLOBAL FOOD SECURITY?

WSPA contends that live exports do not support food security. In the Middle East they are sustained by supportive tariffs and subsidies, the ongoing affordability of which is questionable. And despite those tariffs and subsidies they are declining in importance as a source of animal protein, increasingly replaced by Halal chilled and frozen meat imports. In Indonesia they are seen as a step towards self-sufficiency; however, that is a target which, as evidenced by a number of past Indonesian plans, is no closer to being achieved now than it was years ago.

To the extent that the importation of livestock for slaughter might ultimately contribute to Indonesia's food self-sufficiency they will likely, especially if they are accompanied by restrictions on meat imports, harm the food security of economically vulnerable people who spend a large portion of their household budget on food. This because they will push domestic prices up.

WSPA believes that Australia can best contribute to global food security in three ways.

- Exporting agricultural technology and know-how, including through bilateral and multilateral aid programmes, to increase the agricultural productivity and output of destination countries without raising their domestic prices.
- Continuing to promote the development of a liberal international trading regime and a global trading system that allows food, including chilled and frozen meat, to be moved to where it is needed.[27]
- Taking advantage of value-adding opportunities as a trade policy priority and positioning Australia as a proven and reliable supplier of brand-recognised safe, traceable, high quality, high value, high welfare agricultural commodities, including meat produced in accordance with strict Halal requirements.
  - Australia could adopt an approach similar to that which it has for the mining industry – where it enables minerals-importing countries' corporations and investors to wholly own some mines, acquire equity in others, and rely on long term contracts in others.

Conclusion.

WSPA believes the economic reality of the Australian live export trade is that its overall negative impacts outweigh the financial returns enjoyed by relatively few people. To the extent that the live trade does contribute to regional economies a transition to domestic slaughter would not see that benefit reduced. Nor would there be a transitional reduction in the economic welfare of farmers if the Australian Government worked with state governments and farmers to provide a policy framework that, as advocated by Gary Helou "shapes an industry"[28], that is, provides farmers with market choice. Currently many of them effectively do not have any option but to continue to participate in the live trade.

We have separately mad a submission to the Joint Select Committee on Northern Australia which is inquiring into the development of northern Australia. In that submission we have identified some framework issues that would, in our opinion, go some way to proving farmers with market options.

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