MLA Submission

(to be read in conjunction with the MLA/LiveCorp joint submission)

Senate Inquiry into animal welfare standards for Australia's live export markets

22 July 2011

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Abbreviations

ABARE – Australian Bureau of Agricultural and Resource Economics
CIE – Centre for International Economics
GVP – gross value of production
ILC – Indigenous Land Corporation
LEP – Livestock Export Program
LiveCorp – Australian Livestock Export Corporation
LTAWP – Live Trade Animal Welfare Partnership
lw – live weight
MLA – Meat & Livestock Australia
R&D – research and development
swt – shipped weight

1 Introduction

Meat & Livestock Australia (MLA) welcomes the opportunity to respond to the second item in the terms of reference of the Senate Inquiry into animal welfare standards for Australia's live export markets regarding the economic impacts of the livestock export trade.

MLA has separately addressed this terms of reference to emphasise the economic and other impacts of the livestock export trade on livestock producers (who comprise of MLA’s membership) as opposed to livestock exporters (who form LiveCorp’s membership).

MLA addresses the remaining terms of reference from the Inquiry in its joint submission with LiveCorp.

2 Economic and other benefits of the livestock export trade

The live cattle, sheep and goat industry makes a significant contribution to the Australian economy and livestock industry, particularly in the regional areas in which it operates. The industry contributes an average of $1 billion annually in export earnings, with nearly three-quarters flowing back to the pockets of livestock producers.

2.1 Dependence of the trade in northern and western Australia

The importance of the live export industry particularly to northern and western Australia cannot be overestimated. The industry has emerged as one that is the sole source of income for many producers. Over 75 per cent of properties in the northern live export zone are partially or completely reliant on live cattle receipts (ABARE, 2007).

The live export industry has transformed the northern and western cattle production regions of Australia. Previously these regions produced livestock of variable quality, weight, condition and age. Over the last 15 years, however, driven by live export demand, producers in these regions now respond to, and deliver on, the specific customer requirements of South East Asia and the Middle East.

Over three-quarters of livestock exports depart from northern and western Australia (80% for live cattle exports and 75% for live sheep exports between 2006-2009) (ABARE 2008). The majority of goat exports originate from New South Wales and South Australia (33 and 27 per cent, respectively). Given the regional specific nature of the trade, the continuation of this trade is vital to the future vitality of these regions.

2.2 Impact on regional and remote employment

The livestock export industry employs around 13,000 people (Hassall & Associates 2006), predominately in remote and regional areas of Australia. The industry contributes $1.8 billion to gross domestic product annually and pays wages and salaries totalling nearly $1 billion annually (Hassall & Associates 2006). The higher on-farm net returns received by livestock exporters (compared to alternative enterprises) have flow on effects to local communities through increased producer spending and consequently local employment.

A host of sectors are dependent on the livestock trade: exporters, port and stevedoring services, shipping companies, road transporters, veterinary, helicopter and other ancillary service providers.

AgEconPlus et al 2007 estimated the short, medium and long term impacts of a cessation of the live export trade on employment. The analysis indicated that 5,800 full time equivalent jobs (direct and indirect) would be lost within the first year. The net losses from a cessation of live exports will continue to be significant in the medium to longer term, with losses of 4,700 in year five and 3,700 in year 10.

The live export industry is also a significant employer of indigenous people across northern Australia, where alternative employment opportunities are scarce. The

Indigenous Land Corporation (ILC) is the largest indigenous owned, operated or associated enterprise. The ILC plays a key role in developing indigenous pastoral operations in the far north of Australia, the area where the majority of feeder cattle for Indonesia are sourced. The ILC collaborates with more than 80 indigenous properties collectively running over 200,000 head of cattle, employing over 700 people and with approximately 14,000 indigenous people living on or near these pastoral properties.

2.3 Impact on livestock prices and producer profitability

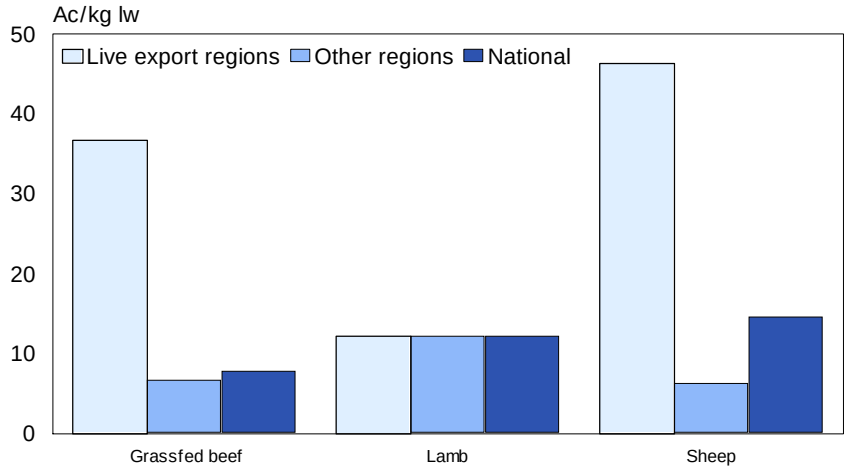
The livestock export industry plays a key role in underpinning Australian livestock prices and producer profitability, both nationally and in live export regions.

Independent modelling by the Centre for International Economics (CIE) concludes that the total cessation of live exports would impact national livestock prices as follows:

- The saleyard price of grassfed cattle would be 4% or 7.88¢/kg liveweight (lwt) lower
- The saleyard price of lambs would be 7.6% or 12.2¢/kg lwt lower
- The saleyard price of mutton would be 17.6% or 14.6¢/kg lwt lower

Figure 2.1 shows that the impacts on prices in northern and Western Australia far exceed the national price impacts above, with prices in live export regions expected to fall 37¢/kg lwt for cattle and 46¢/kg lwt for sheep (CIE 2011).

Figure 2.1
Contribution of the live trade regional farm gate prices



Source: CIE 2011

If live exports were banned, the overall impact on the gross value of production of the red meat and livestock industry – taking into account reduced livestock prices and higher production and exports – is estimated to be $209 million or 2.3 per cent **lower** per year. In terms of net farm income (value added), the reduction would be $99 million (see table 2.1). Of the $247 million in lost GVP to the **farm sector**, 68% would be lost in the live export regions (CIE 2011).

Table 2.1: Impact of the live trade on cattle and ----sheep industry GVP and value added[a]

		Gross value of production			*Value added*		
		Cattle	Sheep	Total	Cattle	Sheep	Total
Total benefits							
Farm sector	$m	-128	-119	-247	-47	-64	-110
Exporters	$m	-40	-30	-71	-8	-6	-14
Processors	$m	70	38	108	18	8	25
Total	$m	-98	-111	-209	-37	-62	-99
Percentage contribution							
Farm sector	%	52	48	100	42	58	100
Red meat chain	%	57	43	100	57	43	100

[a] Average impact over the period 2005-06 to 2008-09. Value added is equivalent to farm income and net margins for exporters and processors, that is, total output less input and hired labour costs.

Source: GMI model and CIE calculations.

2.4 Impact on production and processors

While a complete ban of live exports would negatively impact live exporters and livestock producers, it would provide positive benefits to processors and meat exporters and their suppliers via reduced livestock prices and increased livestock supplies available for production (see table 2.1).

The diversion of livestock originally destined for live export to domestic processing facilities could increase beef production by 109,000 tonnes cwe or 5.1 per cent. Similarly, sheepmeat production could increase by 100,000 tonnes cwe or 14.6 per cent. The majority of this increased production (see table 2.2) is estimated to flow to export markets (CIE 2011).

Table 2.2: Impact of the absence of the live trade on meat production, consumption and trade[a]

		Grass fed	*Grain fed*	*Beef*	*Lamb*	*Mutton*	*Sheepmeat*
Key aggregates							
Production	*kt cwe*	114	-5	109	51	49	100
	%	6.9	-1.1	5.1	12.0	18.9	14.6
Domestic consumption	*kt cwe*	1	-11	-10	10	2	12
	%	0.1	-4.5	-1.4	4.3	5.0	4.4
Exports	*kt cwe*	113	5	118	41	47	88
	%	9.5	2.1	8.2	21.5	22.1	21.8

[a] Change from the observed case. Values for key variables of the live trade are zero.

Source: GMI model and CIE calculations.

However, as discussed above, despite red meat production in Australia increasing, the overall gross value of production across the red meat and livestock supply chain would fall by $247 million.

2.5 Impact of the closure of the Indonesia market

The modelling work undertaken by CIE on the impact of a general closure of the live export trade is supported by actual observation of the impact of a suspension of live exports to just one market i.e. Indonesia.

Northern markets generally reacted swiftly to the news of the suspension of trade to Indonesia. At the time of the trade suspension the light feeder steer (270kg – 320kg) price was between $2.00 - $2.10/kg delivered Darwin. Following the suspension, some trade was done to the Philippines, but at 140c/kg lw ex Darwin, rather than $2.00 - $2.10/kg. Although a price fall may have been expected at this time of year (as turn off from northern Australia increases) the extent of the price fall is significantly greater than would normally occur.

Large cattle companies also factored in lower profits. For instance, AACo has advised the stock market that its forecast earnings have fallen from $60-65 million to $50-60 million EBIT. Similarly, Elders estimated the negative impact in the fiscal year to September of the suspension of live cattle exports to Indonesia would be $4.4 million-$7.3 million. It must be noted that large corporate operations generally have more flexibility to deal with market disruptions than small single family operations – e.g. by profitably streaming cattle south.

Finally, Westpac partly attributed a fall (from 0.05 to 0.04) in the Agribusiness Economic Performance Index in the June 2011 quarter to the suspension of the live cattle trade to Indonesia. While noting that the economic performance of agribusinesses remains positive, Westpac attributed the easing in the index to "rising operating costs, the uncertainties caused by the live cattle ban and the residual impact of adverse weather earlier in the year". Westpac went on to note that the greatest falls in the index were in Queensland and Western Australia, two states most affected by the live cattle trade suspension.

2.6 Impact on land management

A significant benefit of the live cattle trade that emerged in the late 1980s – through improved and more stable livestock prices – has been the investment in herd management practices, animal genetics, animal husbandry techniques, feeding and veterinary care and increased focus on landscape sustainability and biodiversity stewardship.

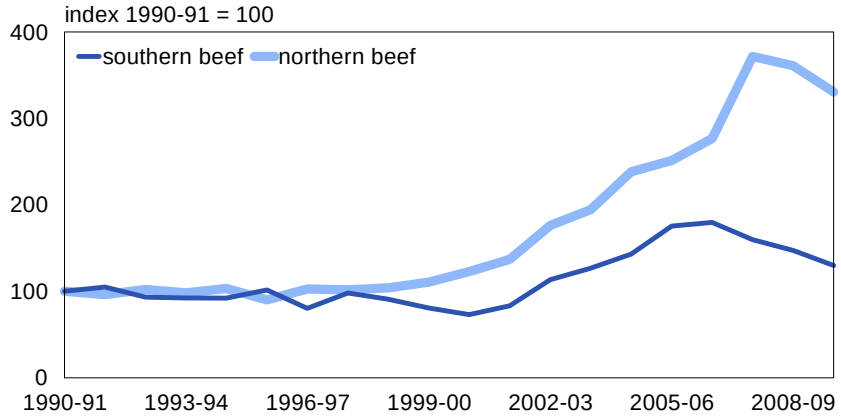
Investment in property infrastructure followed including fencing, watering points and pasture management. This has resulted in the industry becoming more profitable and productive. Total factor productivity for northern beef properties grew at a rate of 2.1 per cent between 1985-86 and 2007-08 compared to 1.3 per cent for southern beef between 1977-78 and 2007-08 (CIE 2011). The higher productivity growth rate in the north reflects the expansion in output underpinned by the greater use of *Bos indicus* breeds and higher fertility rates and turnoff of cattle (ABARE 2009) at a younger age. These gains reflect, at least in part, access to live export markets and considerable industry investment by individual properties and industry organisations – instigated by the higher returns offered in the live export market relative to alternatives (CIE 2011).

2.7 Impact on property values

Over the past decade there has been a steady increase in land values in both southern and northern beef properties (see figure 2.2). This period coincides with a period of considerable investment in the live export industry. According to CIE, the increase in the acquisition of land, which has driven the increase in land values, is

likely to be, in part, the result of the increased productivity and expected returns in the live export industry.

Figure 2.2
Average land values for beef industry farms



Source: ABARES

2.8 Impact on herd management

The live trade has fundamentally changed the nature of the northern production system from one of “wild harvesting” of bullocks for export meat processing to one that turns off younger cattle for live export. As a result, producers are better able to match annual turnoff to available feed supply and avoid forced sales of unfinished bullocks at reduced prices when feed becomes scarce (CIE 2011).

Cattle operations in northern Australia have been built around the live cattle trade to Indonesia. These operations revolve around carrying a high number of breeders and turning steers and heifers off at light weights (less than 330kgs). Continued turnoff is necessary to sustain the number of breeders that are carried on northern properties.

ABARE (2007) research indicates that a restriction in livestock exports would curtail the demand for *Bos indicus* breeds since meat from these animals would not command a high price in the absence of the live export trade. Brahman cattle are ideally suited for the live trade to Indonesia, but are in less demand in southern markets. Demonstrating this, in southern markets Brahman cattle sell at a significant discount to British breeds. For instance, southern Queensland and northern NSW feeder steer prices for the week commencing 20 June 2011, as collected by the National Livestock Reporting Service, were 197¢/kg lw for Angus steers, 190¢/kg lw for Hereford steers and 168¢/kg for Brahmans. This means that northern producers selling into southern markets take a double hit – they take a hit on transport costs (the cost of transporting cattle to southern markets represents a major impediment to northern producers - for instance, the transport cost from Katherine to Roma is about 45c/kg lwt) and they take a hit on prices.

Growing cattle (that were previously destined to live export) to slaughter-ready weights in Australia would require livestock to be fed for an additional six to 24 months (and possibly requiring transport to traditional finishing areas in the latter months before being sent to abattoirs).

There would be obvious negative cash flow implications for producers over the period as livestock are reaching slaughter-ready weights and additional freight costs of transport to finishing areas.

2.9 Impacts on trading partners

Our trading partners benefit from higher levels of live exports from Australia, namely:

1. Improvement in social and economic wellbeing
    - Consumers benefit from access to protein at a lower price than would otherwise prevail and ensuring meat satisfies religious and traditional needs.
    - The economy benefits through the opportunity to add value to imported feeder cattle through fattening. This brings financial returns to the owners of feedlots as well as providing increased employment opportunities in situations typically characterised by high levels of unemployment, or under employment (see box 2.1).

Box 2.1: flow on effects of the live cattle trade in Indonesia

The live cattle trade to Indonesia has a significant flow-on effect to millions of Indonesians. Initial analyses suggest that in 2010 – when approximately 500,000 cattle were exported from Australia to Indonesia – the trade provided approximately 1,750 shipments, 45,000 man hours of unloading time and 45,000 truckloads from port to feedlot. In 2010, approximately 100,000 tonnes of local feed was used, 90 per cent of which was agricultural waste, supplied by roughly 2,000,000 Indonesian farmers.

In addition, there was approximately 100,000 tonnes of usable natural compost produced from the feedlots which was used to produce a multitude of crops across the country.

Overall, this involved approximately 4,000,000 hours of labour for 20,000 workers, each with an average of five dependents.

A further 45,000 truckloads of cattle were transported to processing facilities and a further 2,000 people were involved in slaughter and processing. Approximately 20,000 people were involved in retail sales in wet markets and in the production of bakso balls (a beef meatball that is a staple in the diet of most Indonesians).

2. Technology spillovers

    A significant element of the joint MLA and LiveCorp Live Export Program (LEP)[1] is directed at addressing specific marketing and technical problems in customer countries. These changes have delivered:
    - Improvements in animal welfare through reduced stress in handling, appropriate watering and feeding, and in more humane slaughter in local meat processing operations;
    - Higher quality meat products for consumers;
    - Lower production costs for producers; and

[1] Refer to MLA and LiveCorp's joint submission for details on this program

- Breeding programs through jointly funded projects with the Australian Centre for International Agricultural Research

3. Capacity building
    - Through the LEP's country specific ongoing R&D and advisory activities and its periodic delivery of short term technical support, it has improved the capacity of 'in country' researchers, extension support processes and individual businesses to better address animal welfare and production issues (CIE 2010).

2.10 Biosecurity benefits

Livestock exported from Australia to neighbouring countries provide biosecurity benefits to Australia and our region. Australia is free from animal diseases such as foot and mouth disease and it is vital to our red meat and livestock industry that this status remains. As long as our neighbouring trading partners can secure livestock supplies from Australia, they are less likely to source livestock from other countries with questionable biosecurity risks.

3 Bibliography

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