

Live animal exports to the Middle East

- 5.1 This chapter examines Australia's live animal exports and the impact of the Exporter Supply Chain Assurance System (ESCAS) on the trade. The chapter looks at ESCAS in detail and the impact its implementation has had on the main Middle Eastern markets, including Saudi Arabia, which refuses to participate in ESCAS and has opted not to import Australian livestock since 2012.

Overview

- 5.2 In 2015, Middle Eastern markets accounted for up to 97 per cent of Australia's live sheep exports and were estimated to be worth more than \$237 million with Kuwait (576,350 sheep), UAE (454,233 sheep) and Bahrain (315,000 sheep)¹.
- 5.3 In 2015, Israel was the largest live cattle market in the Middle East, importing 79,334 head of cattle estimated to be worth more than \$87 million and about 6 per cent of all Australia's cattle exports.² Egypt also imported 18,500 Australian cattle, with Jordan importing 2,223 cattle and Kuwait 1,264 cattle. The UAE imported 3,296 goats from Australia in 2015, which was about 3 per cent of all goat exports.³
- 5.4 According to the Department of Agriculture's 2015 report on the Exporter Supply Chain Assurance System (ESCAS):

1 LiveCorp, Sheep statistics, Australian live sheep exports by destination for 2014 and 2015, <www.livecorp.com.au>.

2 LiveCorp, Cattle statistics, Australian live cattle exports by destination for 2015, <www.livecorp.com.au>.

3 LiveCorp, Goat statistics, Australian live goat exports by destination for 2015, <www.livecorp.com.au>.

Australia is a high-volume exporter of live animals and important to the food security of many importing countries.⁴

- 5.5 The Chairman of the Australian Livestock Exporters' Council (ALEC), Peter Kane, said that despite facing a number of in-market challenges in the Middle East, the region has been and will continue to be critical to Australia's livestock export industry.⁵ ALEC represents the livestock export sector including licensed exporters of feeder, slaughter and breeder sheep, cattle, goats, buffalo and camels.⁶
- 5.6 Mr Kane observed that although the Middle East remains the dominant market for Australian sheep, the trade has declined significantly since 2001, when seven million sheep were exported to the region at its peak:
- The sharp decline can be attributed to a number of factors, including the industry's trade suspension to Bahrain in 2012, the increasing price of Australian sheep driving competition from other exporting nations and, in some markets, the implementation of the Exporter Supply Chain Assurance System, ESCAS.⁷
- 5.7 The Australian Livestock Exporters' Council (ALEC) believes the Middle East and North Africa (MENA) region presents many challenges to the Australian livestock sector, including underlying religious, cultural and commercial factors that are barriers and impediments to the trade in live animals exports.⁸

Exporter Supply Chain Assurance System

- 5.8 The Australian-developed Exporter Supply Chain Assurance System (ESCAS) was introduced in July 2011 and requires exporters to have commercial arrangements with supply chain partners to provide humane treatment and handling of livestock from arrival in the importing country up to the point of slaughter.⁹

4 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 30.

5 Mr Peter Kane, Australian Livestock Exporters' Council, *Committee Hansard*, Sydney, 9 September 2014, p. 54.

6 Australian Livestock Exporters' Council, *Submission 16*, p. 3.

7 Mr Peter Kane, Australian Livestock Exporters' Council, *Committee Hansard*, Sydney, 9 September 2014, p. 54.

8 Australian Livestock Exporters' Council, *Submission 16*, p. 11.

9 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 6.

5.9 The Middle Eastern countries of Bahrain, Egypt, Israel, Jordan, Kuwait, Oman, Qatar and United Arab Emirates all import Australian live animals under ESCAS:

Two to three million slaughter sheep are exported each year, predominantly to the Middle East, which accounts for about 6 per cent of annual turn-off.¹⁰

5.10 Under ESCAS the exporter must demonstrate, through a system of reporting and independent auditing:

- animal handling and slaughter meets World Organisation for Animal Health (OIE) animal welfare standards (Animal welfare);
- the exporter has control of all supply chain arrangements for livestock transport, management and slaughter, and all livestock remain in the supply chain (Control); and
- the exporter can trace or account for all livestock through the supply chain (Traceability).¹¹

5.11 The Department of Agriculture requires livestock exporters to obtain ESCAS approval from the department before exporting live animals. It can only be approved if the department is satisfied that the exporter will ensure that relevant OIE standards will be met. The exporter must outline the details of the supply chain for the proposed export, including the following:

- the port of arrival;
- transport, handling and slaughter of the livestock feedlots;
- identification, tracking or accounting and reconciliation of livestock;
- independent auditing and reporting;
- access to premises; and
- any related operations and facilities.¹²

5.12 ESCAS was introduced by the Australian Government in July 2011, following the public response to footage of mistreatment of Australian animals in some Indonesian abattoirs and the Australian Government temporarily suspending trade to Indonesia of cattle for slaughter until new safeguards for animal welfare were established:

10 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 11.

11 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 2.

12 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 6.

The Exporter Supply Chain Assurance System (ESCAS) was designed in a matter of weeks and was implemented in Indonesia. It was then progressively rolled out to all Australian export markets during 2012.¹³

- 5.13 The aim of ESCAS is to ensure that Australian livestock exported for feeder and slaughter purposes are handled in accordance with international animal welfare standards and to provide a mechanism to deal with animal welfare issues when they occur, thereby preventing the need for trade suspensions.¹⁴
- 5.14 The 2015 ESCAS report states that problems with the evidence provided to support allegations of non-compliance with ESCAS can make investigating non-compliance difficult. Reports of possible non-compliance may or may not contain supporting evidence. Even when provided, videos and photographs may not contain identifying details such as location, time or date or may not be of sufficient quality to allow the Department of Agriculture to identify the source of the animals.¹⁵
- 5.15 From the over 5.5 million sheep exported under ESCAS until late 2014, there have been eight instances of non-compliance recorded for sheep:
- Multiple factors may contribute to this type of non-compliance. It is not uncommon for sheep to be managed in feedlots ranging in size from 20,000–60,000 animals, making it difficult to identify unauthorised removal of small numbers of animals. Their relatively small size and the common practice of selling sheep for home slaughter in many Middle East markets may also be relevant. Sheep are not individually identified...¹⁶

Impact of ESCAS on individual markets

- 5.16 Summaries of the impact of ESCAS on live animal exports to each of Australia's main Middle Eastern markets (Bahrain, Israel, Jordan, Kuwait, Oman, Qatar and the UAE) follow in the next sections.¹⁷
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13 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 2.

14 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 2.

15 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 26.

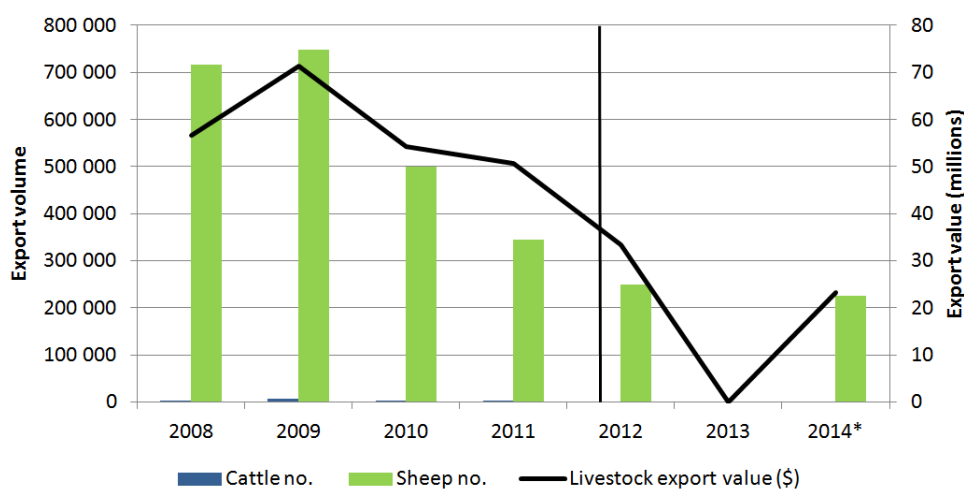
16 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 28.

17 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 53.

Bahrain

- 5.17 ESCAS was introduced to the Bahrain market in March 2012 as indicated by the vertical line in Figure 5.1. In August 2012 the industry imposed a suspension, which was lifted in February 2014. The supply chain in Bahrain is simple with a single importer, feedlot and abattoir with facilities partially owned by the Bahraini Government. Imported live sheep and carcasses are subsidised by the Bahraini Government and retailed at a fixed price, so there is little incentive to sell outside the approved supply chain.¹⁸ In 2015, 315,000 sheep were exported to Bahrain under ESCAS, up from 274,865 sheep in 2014.¹⁹
- 5.18 Australia is the largest exporter of sheep to Bahrain, followed by Saudi Arabia and Somalia. Following Australia's suspension of live exports, Bahrain also increased sheep meat imports from other suppliers such as Pakistan, Ethiopia, Sudan and Kenya. The sheep that are exported from Australia to Bahrain mostly depart from Fremantle and Port Adelaide.²⁰

Figure 5.1 Trade data – live cattle and sheep exports to Bahrain²¹



Note: Vertical line indicates date of implementation of ESCAS in this market.

* 2014 data includes exports up to 30 November 2014

Source Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015.

18 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 54.

19 Meat & Livestock Australia, Market information for 2014 and 2015, <www.mla.com.au>.

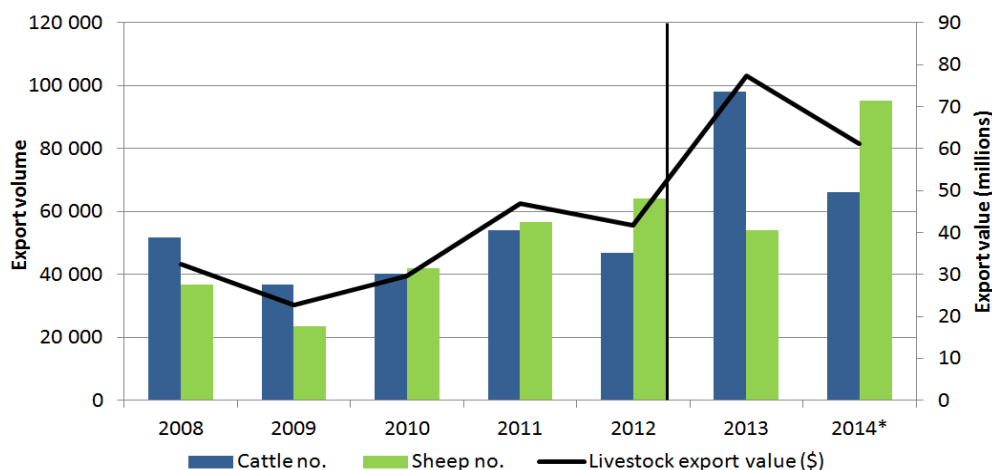
20 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 54.

21 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 54.

Israel

- 5.19 ESCAS was introduced to the Israel market in September 2012. The supply chains in Israel are complex, utilised by a number of different commercial parties and contain a large number of facilities. All feedlot and abattoir facilities are owned by two companies. Livestock exports from Australia have also been exported to Gaza as part of Israeli supply chains. Israel has in place its own animal welfare laws that are stringent and equivalent to World Organisation for Animal Health (OIE) standards. Seventy feedlots and nine abattoirs in Israel have been approved under ESCAS. As of November 2014, 29 consignments of sheep and cattle have been exported since ESCAS was introduced.²²
- 5.20 Israel was Australia's second largest market for cattle exports in 2013 and an important market for live sheep. Israel imported 98,096 cattle in 2013, which represented 13 per cent of cattle export volume (see Figure 5.2). Post introduction of ESCAS, Australia exported 164,289 sheep and 173,877 cattle to Israel as of November 2014. Israel imported 63,150 sheep in 2015. Sheep and cattle exported to Israel mostly depart from Fremantle, Geraldton and Port Adelaide.²³

Figure 5.2 Trade data – live cattle and sheep exports to Israel²⁴



Note: Vertical line indicates date of implementation of ESCAS in this market.

* 2014 data includes exports up to 30 November 2014

Source Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015.

22 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 60.

23 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 60.

24 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 60.

Jordan

- 5.21 ESCAS was introduced to the Jordan market in September 2012. Jordan has simple supply chains each with a small number of facilities. All livestock abattoirs are supervised by the Jordanian Government.²⁵
- 5.22 Jordan has been subject to a number of investigations and incidents related to loss of sheep from supply chains. Jordan is a high-volume importer and local factors may have contributed to these incidents.²⁶
- 5.23 Jordan was Australia's third largest market for live sheep exports in 2013 and a smaller market for cattle. A total of 287,792 sheep were exported in 2013, which represented nearly 15 per cent of sheep exported from Australia. Australia exported 294,095 sheep to Jordan in 2014 and 154,500 sheep to Jordan in 2015.²⁷ Following the introduction of ESCAS, Australia has exported 689,947 sheep and 11,900 cattle to Jordan as of November 2014 (see Figure 5.3). Sheep and cattle mostly depart from Fremantle.²⁸

Figure 5.3 Trade data – live cattle and sheep exports to Jordan²⁹



Note: Vertical line indicates date of implementation of ESCAS in this market.

* 2014 data includes exports up to 30 November 2014

Source Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015.

25 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 64.

26 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 64.

27 Meat & Livestock Australia, Market information for 2014 and 2015, <www.mla.com.au>.

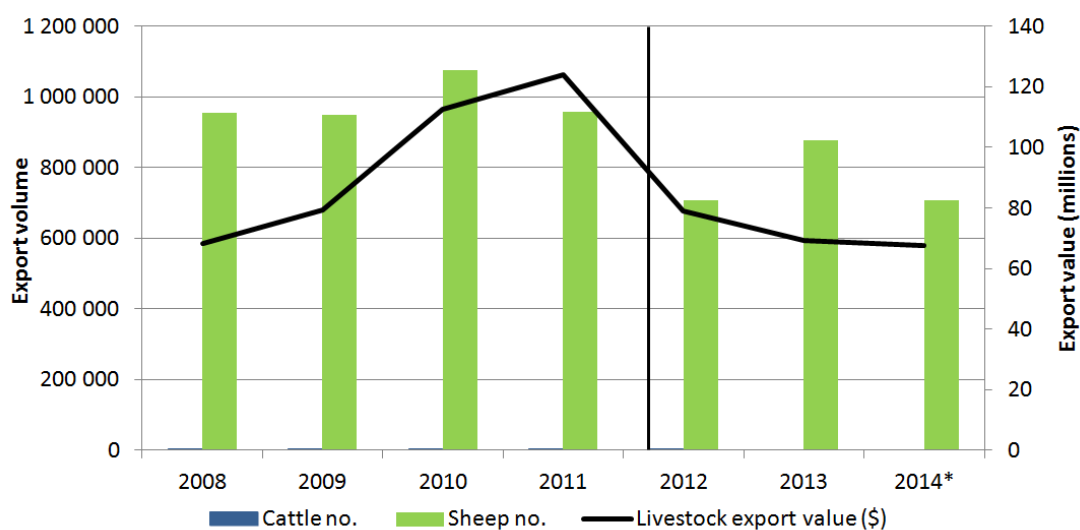
28 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 64.

29 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 64.

Kuwait

- 5.24 Kuwait has been Australia's largest sheep importing market for over a decade. From 2008–2013 the market imported 700,000 to 1 million live sheep per annum from Australia. In 2011, Kuwait accounted almost 40 per cent of Australia's live sheep exports. After ESCAS was introduced, Australia had exported a total of 2,153,872 sheep to Kuwait as of November 2014 (see Figure 5.4)³⁰. In 2015, Australia exported 576,350 sheep to Kuwait down from 744,671 in 2014.³¹
- 5.25 Sheep exported to Kuwait mostly depart from Fremantle Port, Port Adelaide and Portland. Kuwait was importing over one million Australian sheep a year at the height of demand..³²
- 5.26 The Australian industry provided 123 days of training to Kuwaitis in the 2013–14. Three hundred participants have received training in Kuwait since the implementation of ESCAS in Kuwait as of November 2014.³³

Figure 5.4 Trade data – live cattle and sheep exports to Kuwait³⁴



Note: Vertical line indicates date of implementation of ESCAS in this market.

* 2014 data includes exports up to 30 November 2014

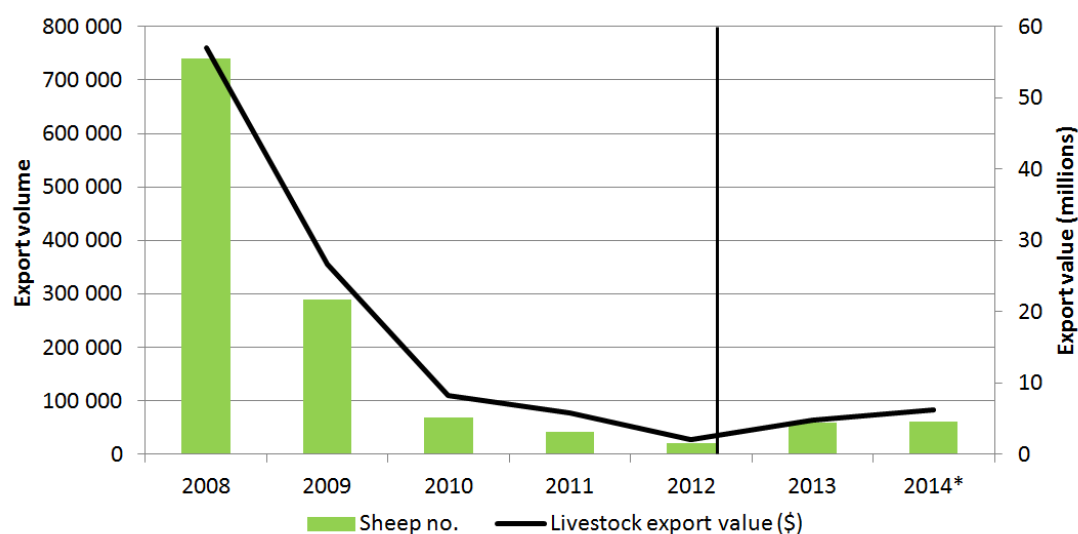
Source Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015.

- 30 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 66.
- 31 LiveCorp, Sheep statistics , Australian live sheep exports by destination for 2014 and 2015, <www.livecorp.com.au>.
- 32 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 66.
- 33 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 67.
- 34 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 66.

Oman

- 5.27 ESCAS was introduced to the Oman market in September 2012. Supply chains in Oman are simple with a small number of importers, exporters and facilities. All abattoirs are government-owned and, with the exception of the largest abattoir, all operations are tendered to the private sector.³⁵
- 5.28 Oman is a significant importer of live sheep and trade has occurred with minimal incidents. Five feedlots and seven abattoirs have been approved under ESCAS. As of November 2014, 21 consignments of sheep had been exported to Oman since ESCAS was introduced. Oman remains a stable live sheep export market for Australia. Australia was the third largest exporter of live sheep and goats to Oman in 2011. Post introduction of ESCAS, Australia has exported 128,242 sheep to Oman, as of November 2014 (see Figure 5.5). In 2015, Australia exported 79,804 sheep to Oman up from 61,646 sheep in 2014.³⁶ Sheep that are exported to Oman depart mostly from Fremantle, and some have also depart from Portland.³⁷

Figure 5.5 Trade data – live sheep exports to Oman³⁸



Note: Vertical line indicates date of implementation of ESCAS in this market.

* 2014 data includes exports up to 30 November 2014

Source Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015.

35 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 72.

36 LiveCorp, Sheep statistics, Australian live sheep exports by destination for 2014 and 2015, <www.livecorp.com.au>.

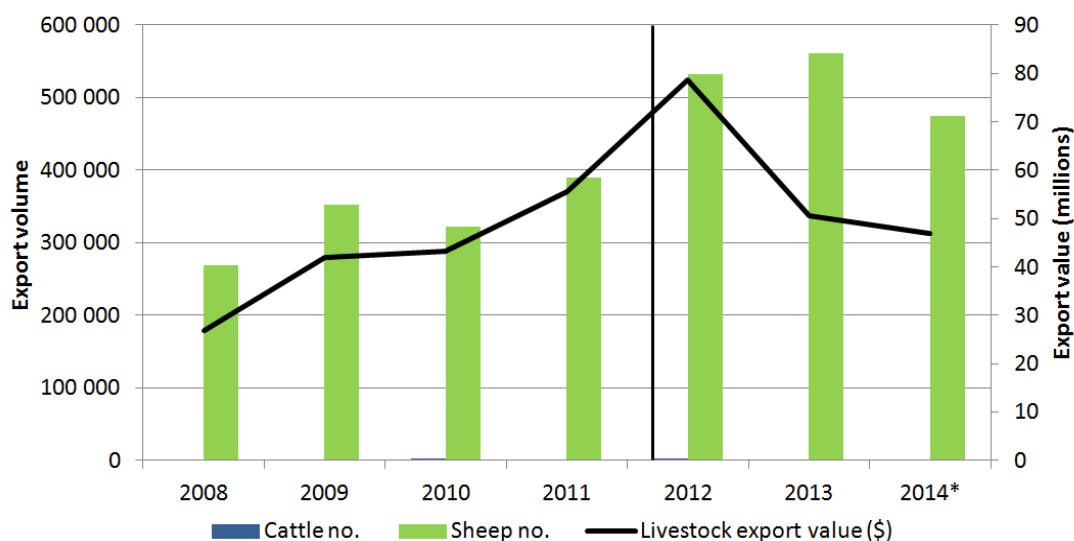
37 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 72.

38 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 72.

Qatar

- 5.29 ESCAS was introduced to the Qatar market in March 2012. Supply chains in Qatar are simple with a single importer and small numbers of exporters and facilities. Qatar is a high-income country with a well-developed regulatory system. One feedlot and four abattoirs have been approved under ESCAS. Forty-two consignments of sheep and cattle have been exported to Qatar as of November 2014 since ESCAS was introduced.³⁹
- 5.30 Qatar was Australia's second largest market for live sheep exports in 2013 and a smaller market for cattle. A total of 560,762 sheep were exported in 2013 to Qatar and this accounted for 28 per cent of the market. In 2015, Australia exported 239,414 sheep to Qatar down from 539,250 sheep in 2014.⁴⁰ Since the introduction of ESCAS, Australia exported 1,501,889 sheep and 3881 cattle to Qatar as of November 2014 (see Figure 5.6). Sheep and cattle exported to Qatar depart mostly from Fremantle with smaller numbers departing from Port Adelaide.⁴¹

Figure 5.6 Trade data – live cattle and sheep exports to Qatar⁴²



Note: Vertical line indicates date of implementation of ESCAS in this market.

* 2014 data includes exports up to 30 November 2014

Source Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015.

39 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 76.

40 LiveCorp, Sheep statistics, Australian live sheep exports by destination for 2014 and 2015, <www.livecorp.com.au>.

41 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 76.

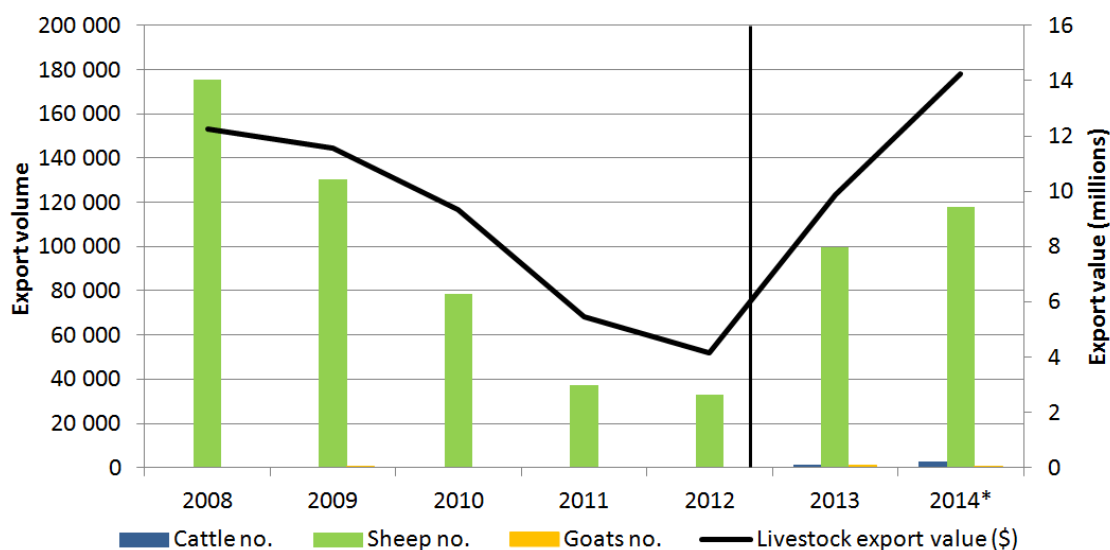
42 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 76.

United Arab Emirates

5.31 ESCAS was introduced to the UAE market in September 2012. The supply chains are not overly complex, with only a limited number of facilities. All abattoirs are government-owned and slaughter must be done in these facilities. The UAE is a consistently large market for sheep. As of November 2014, four feedlots and 11 abattoirs have been approved under ESCAS and 33 consignments of sheep and cattle have been exported (see Figure 5.7).⁴³

5.32 The UAE was Australia's fourth largest market for live sheep exports in 2013 and a smaller market for cattle and goats.⁴⁴ In 2015, Australia exported 454,233 sheep to the UAE up from 118,043 sheep in 2014.⁴⁵ Sheep, cattle and goats exported to the UAE depart from a number of ports including Fremantle, Port Adelaide, Portland, Melbourne and Sydney.⁴⁶

Figure 5.7 Trade data – live cattle, sheep and goats exports to UAE⁴⁷



Note: Vertical line indicates date of implementation of ESCAS in this market.

* 2014 data includes exports up to 30 November 2014

Source Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015.

43 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 80.

44 Meat & Livestock Australia, Market information for 2014 and 2015, <www.mla.com.au>.

45 LiveCorp, Sheep statistics, Australian live sheep exports by destination for 2014 and 2015, <www.livecorp.com.au>.

46 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 80.

47 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 80.

Costs and regulatory burden of ESCAS

5.33 ALEC argued that the complexity and high costs associated with meeting the Australian Government's ESCAS requirements for live animal exports make it harder for Australian livestock exporters to compete against lower cost producers from other countries:

It is important to note that Australian livestock export regulations are the most onerous in the world and place Australia at a significant commercial disadvantage compared to all other countries supplying livestock to MENA markets.⁴⁸

5.34 The 2015 Report on ESCAS indicated that it is difficult to determine the system's full cost. Since its introduction it has become part of the costs of exporting and built into business structures. As a result it is difficult to isolate ESCAS operation and compliance costs.⁴⁹

5.35 In 2011 LiveCorp estimated that establishment of a new ESCAS-compliant supply chain could cost \$0.5 million per exporter. Ongoing costs were estimated to be in the order of \$2 per animal for cattle exported to Indonesia. The initial cost of establishing ESCAS in a country is significant for exporters. Exporters are required to develop supply chains that can meet OIE standards and supply evidence of compliance at each facility to the Department of Agriculture initially and on an ongoing basis.⁵⁰

5.36 Establishment of a compliant supply chain may require infrastructure improvements overseas as well as training for staff working in facilities. While exporters have primary responsibility for demonstrating compliance with ESCAS, costs may be passed on to commercial partners in importing countries, including importers and feedlot or abattoir owners.⁵¹

5.37 Since implementation, industry has conducted further work to investigate costs to exporters. In 2013, cost estimates ranged from \$0.77 to \$14.00 per animal for sheep, and from \$8 to \$45 per animal for cattle. The costs per animal of compliance with ESCAS are listed in Table 5.1 These estimates vary depending on species, destination market and transportation method. This is a significant increase on costs reported in 2011.

48 Australian Livestock Exporters' Council, *Submission 16*, p. 15.

49 Department of Agriculture, *Exporter Supply Chain Assurance System Report*, January 2015, p. 38.

50 Department of Agriculture, *Exporter Supply Chain Assurance System Report*, January 2015, p. 39.

51 Department of Agriculture, *Exporter Supply Chain Assurance System Report*, January 2015, p. 39.

Table 5.1 Cost per animal of compliance with ESCAS

Species	Transport method	High	Low	Mode*
Cattle	Sea	\$45.00	\$8.00	\$9.00
Sheep	Sea	\$0.77	\$0.77	\$0.77
Sheep	Air	\$14.00	\$10.00	\$13.00
Goats	Air	\$14.00	\$10.00	\$13.00

*Note: The mode represents the number that was represented most often in the sample.

Source Department of Agriculture, *Exporter Supply Chain Assurance System Report, January 2015 and Meat & Livestock Australia 2014*

5.38 The Department of Agriculture reports that it has been working with industry to improve ESCAS and reduce the costs of the system. This is an ongoing process. To date the following improvements have been implemented:

- allowing exporters to submit declarations attesting that contracts with importers and facilities are in place rather than submitting copies of each contract;
- removing the need to submit end-of-processing reports for each cattle and buffalo consignment;
- removing the need to submit the auditor's assessment checklist when submitting independent audits;
- replacing the requirement to publish individual audit reports with publication of audit summaries every four months;
- simplifying the approval arrangements for ESCAS variations, reducing paperwork and improving assessment times; and
- separating ESCAS approvals from individual consignment approvals, reducing the amount of paperwork involved.⁵²

Exporters' views of ESCAS

5.39 According to ALEC, ESCAS provides further oversight of the welfare of exported livestock by applying animal welfare regulation in Australia's international markets for slaughter and feeder animals, but its implementation has cost Australia access to the large live animal export market in Saudi Arabia:

ESCAS has placed our industry on a firmer footing, providing greater transparency and certainty around the delivery of animal welfare outcomes that meet both international standards and the

52 Department of Agriculture, *Exporter Supply Chain Assurance System Report, January 2015*, p. 42.

standards expected by the Australian community. However, its implementation has also come at a significant cost to market share. This includes a complete loss of access to the Kingdom of Saudi Arabia market, where the imposition of ESCAS or the prescription of animal welfare standards by Australia has aroused sensitivities around national sovereignty. No Australian stock has been imported by Saudi Arabia since ESCAS was commenced there. Australia's strongest competitors in the region, the nations of the Horn of Africa, are not subject to the same level of export regulation, which places Australia at a significant disadvantage.⁵³

- 5.40 The Department of Agriculture's 2015 report on ESCAS stated that the new assurance system had affected sheep export volumes due to the loss of the Saudi Arabian market:

For example, Australia has not exported live animals to Saudi Arabia since August 2012 due to Saudi Arabia's concern that the implementation of ESCAS would impinge upon its sovereignty.⁵⁴

- 5.41 According to ALEC, Australia has been able to work with and influence outcomes for Australian livestock exports to the MENA region with more success in some countries than others:

The issue of Australia prescribing animal welfare standards in the Kingdom is offensive to the Government and they have made this stance patently clear to the Australian industry and the Australian Government.⁵⁵

- 5.42 The 2015 ESCAS report stated it is 'difficult to distinguish the impact ESCAS specifically had on trade' due to international trade being affected by 'numerous factors such as price, exchange rate, competition, market-specific issues, domestic policies and commercial factors'⁵⁶. The Department of Agriculture's report stated:

Cattle exports declined prior to the introduction of ESCAS but rebounded to record levels in 2013-14. Total trade volume of sheep has been declining since 2005-06 and has continued to decline following the introduction of ESCAS.⁵⁷

53 Mr Peter Kane, Australian Livestock Exporters' Council, *Committee Hansard*, Sydney, 9 September 2014, p. 55.

54 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p.35.

55 Australian Livestock Exporters' Council, *Submission 16*, p. 17.

56 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 3.

57 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 4.

5.43 However the high costs associated with meeting ESCAS requirements are reported to be a deterrent to trade, according to the 2015 ESCAS report:

ESCAS is a costly and complex system for importers and foreign governments and this has had some effects on Australia's image as a reliable supplier of high-quality livestock. Costs and complexity have also discouraged some commercial parties from participating in the trade.⁵⁸

5.44 The report states demand for exports of Australian live animals remains strong and the trade 'cannot be replaced by the boxed meat trade in many markets'.⁵⁹

5.45 A member of ALEC, Graham Daws, told the Committee why he believes some of the complexities of ESCAS offended some exporters' Middle Eastern customers:

All the customers had been invited and over many years encouraged by Australian governments to invest in the industry. They bought vessels that cost hundreds of millions of dollars – one vessel is worth two meatworks. They have bought properties, they have bought genetics, they have bought feedlots, they have bought feed factories, they have invested in infrastructure to support the trade. And the amount of money spent is so much that it is 15- to 20-year investment decisions. Then Australia changes the goalposts. All this is deeply offending all our customers. They will never bring it up, they will never raise it, but that is actually how they feel. They accepted ESCAS because they had a gun at their head and they had all this investment. So what were they to do?⁶⁰

5.46 Mr Daws argues loss of access to the Saudi Arabian market due to ESCAS remains a significant problem to overcome because he believes the Saudis would import another million head of sheep a year and 200,000 head of cattle a year if imposition of ESCAS was not an issue for them:

Believe me, there are some very good points of ESCAS, as far as animal welfare goes and the heightened awareness of animal welfare and the importance of it. That has been fantastic. But it is the mechanics of it, the cost, the interference, and the mistrust that all our clients feel. They feel that Australia just does not trust them. They say: 'We trust you. Animals come. They have a health

58 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 30.

59 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 30.

60 Mr Graham Daws, Australian Livestock Exporters' Council, *Committee Hansard*, Sydney, 9 September 2014, p. 56.

certificate. You certify everything. We trust you, but you do not trust us.' Under ESCAS, we have to go and inspect all their facilities, and basically say, 'We're coming to check on you to make sure that you are good enough to receive our animals.' This has shaken and the deeply wounded them to the core, as far as future investment and continuity of trade are concerned.⁶¹

- 5.47 The 2015 ESCAS report stated the Saudi Arabian market was waning prior to 2012:

At its height in 2006, the Saudi Arabian market received nearly 1.2 million Australian sheep per year and smaller numbers of cattle (mostly breeder rather than slaughter animals). When Australia introduced ESCAS, its sheep exports to Saudi Arabia were already significantly declining – with the increasing value of the Australian dollar reducing the competitiveness of Australian livestock compared to those from northern Africa.⁶²

- 5.48 Mr Daws hoped Australia's long record of live animal exports to the Middle East can help regain the trust of those markets:

However, we are at the crossroads now, where there is a definite push-back on the new systems that Australia is imposing. However, those things can be overcome. It is a matter of how we do it. Critical is the approach that we take. It has to be a win-win for both sides, which it is, but you need to be able to explain how that is. You cannot just go in with a sledgehammer and say, 'Take it or leave it' because that damages relationships.⁶³

- 5.49 ALEC Chairman Mr Kane, argued the industry relied on a close partnership with the Australian Government for support in improving market access, which was fundamental to the sustainability and profitability of Australian livestock exporters, as well as to producers and other participants:

Equally important is building a public acceptance and earning trust through meeting community expectations about animal welfare. Australia's livestock industry has been expending considerable effort finding the balance that ensures access to markets and the correct standard of animal welfare outcomes in countries that have very significantly different cultures from our

61 Mr Graham Daws, Australian Livestock Exporters' Council, *Committee Hansard*, Sydney, 9 September 2014, p. 56.

62 Department of Agriculture, Exporter Supply Chain Assurance System Report, January 2015, p. 35.

63 Mr Graham Daws, Australian Livestock Exporters' Council, *Committee Hansard*, Sydney, 9 September 2014, p. 56.

own. Achieving continual improvements in animal welfare is central to our industry's activities in the Middle East; and, through a combination of industry investment and government regulation, Australia is successfully driving improvements in animal welfare outcomes in markets in the region.⁶⁴

Animal welfare

5.50 ALEC states that tens of millions of dollars have been invested in animal welfare over the 30 years of Australian presence in the Middle East. Improvements in animal welfare have been achieved over this time due to:

- Infrastructure improvements to many abattoirs with new races, ramps and slaughter tables in Kuwait, v-restrainers in Bahrain and Qatar, cattle restraining boxes in Qatar, Jordan, Libya and Kuwait and a cattle stunner in Jordan. Feedlots have also been improved by provision of shade, water and feed bunks. Port upgrades in Oman, Saudi Arabia and Kuwait, yard panels in Kuwait, port shed renovation in Kuwait, and a port trailer in Israel;⁶⁵ and
- Training and technical advice on animal welfare is provided across the region – in 2013-14 over 840 people participated in training activities including 40 participants in Kuwait such as managers, butchers and general staff receiving procedure training. ESCAS auditor training workshops were also delivered to improve auditor assessment skills and understanding of ESCAS, OIE guidelines and other compliance requirements.⁶⁶

5.51 In the main, according to ALEC, the governments of many Middle Eastern countries importing Australian livestock have given their consent to different animal welfare standards because they have benefited from the transfer of knowledge and understanding provided by Australia. In some cases Australian industry support has also included the supply or refurbishment of infrastructure and equipment:

Finding the balance that ensures the correct standard of animal welfare outcomes in countries that have a significantly different culture has been a challenge that Australia has willingly taken up over the last three decades.⁶⁷

64 Mr Peter Kane, Australian Livestock Exporters' Council, *Committee Hansard*, Sydney, 9 September 2014, p. 54.

65 Australian Livestock Exporters' Council, *Submission 16*, pp. 16 – 17.

66 Australian Livestock Exporters' Council, *Submission 16*, p. 17.

67 Australian Livestock Exporters' Council, *Submission 16*, p. 17.

- 5.52 The Australian livestock export industry has been incredibly successful, according to ALEC, in influencing improvements in animal welfare outcomes in the MENA region. This has been a direct result of extensive industry programs in all of the markets that Australia supplies and is the culmination of three decades of market presence. ALEC states there is still a need for the continuation and monitoring of programs in the MENA region:

The major significant hurdle still to be overcome is the implementation of pre slaughter stunning in MENA markets. As the practice of stunning is open to many different interpretations under the requirements for 'halal' slaughter, it is a particularly challenging issue. Cultural and geographical differences together with the fundamental denominational divide between Sunni and Shia...need to be understood when dealing with any matter which is subject to Sharia Law. Pre slaughter stunning is not a requirement to meet OIE [World Organisation for Animal Health] standards making the argument for it to be implemented even more vexing.⁶⁸

Competition

- 5.53 The Horn of Africa, South America and Eastern Europe are Australia's main competitive suppliers of livestock to the MENA region. Sudan, Somalia and Ethiopia have significant livestock populations and export large numbers of cattle, sheep and goats to the GCC. According to ALEC research, the Sudan reportedly carries 41 million cattle, 43 million sheep and 51 million goats; Somalia carries 4 million cattle, 12 million sheep and 18 million goats and Ethiopia carries 49 million cattle, 25 million sheep and 22 million goats.⁶⁹
- 5.54 Almost all livestock production in the Horn of Africa is based on small holder grazing, has a low cost of production and the highest returns are obtained from livestock delivered into the live export supply chain. These three countries supply large numbers of mainly light weight animals into Saudi Arabia and other GCC states and in 2014 almost all Saudi Arabia imports were being sourced from the African Red Sea coast:

Livestock sales in the GCC are based on per head prices, the light weight, breed similarity and proximity to market make Horn of

68 Australian Livestock Exporters' Council, *Submission 16*, p. 16.

69 Australian Livestock Exporters' Council, *Submission 16*, p. 14.

Africa sourced stock affordable and desired in many of Australia's MENA live export markets.⁷⁰

- 5.55 A member of ALEC, Graham Daws, told the Committee that the Middle Eastern markets would soon find alternative suppliers if Australian livestock ever became unavailable:

If there was any interference with livestock, buyers would get livestock from some other country, as Saudi Arabia is doing now. They are now importing eight million head of all species per annum; 25,000 head a day are coming in from Sudan. So they do not need Australia, but Australia has the quality, the reputation, the hygiene and the long-term continuity that they would be seeking.⁷¹

- 5.56 Brazil, with a cattle herd in excess of 200 million head, is the major competitor for supply of slaughter cattle to MENA, particularly to Egypt and Lebanon.⁷²

Opportunities for live animal exports

- 5.57 According to DFAT, the Middle East is expected to regain its prominence as a major market for Australian livestock exports, particularly for sheep and cattle. Competition from suppliers in North Africa, political developments in the region, the introduction of Australia's Exporter Supply Chain Assurance System (ESCAS), and the stronger Australian dollar have all contributed to the short term decline in livestock exports over the last four years. Kuwait remains Australia's largest market for sheep, accounting for 43 per cent of all trade. Access to new markets, a lower Australian dollar and Australia's more competitive livestock are expected to increase exports in the medium term. In 2014, the government announced the recommencement of live animal exports to Bahrain under the ESCAS regime, and also the resumption of the trade with Egypt.⁷³

- 5.58 The Department of Agriculture also expects the demand for live animal exports from Australia in MENA countries to remain strong:

Many MENA consumers, particularly Muslims, prefer to purchase meat that comes from animals slaughtered under the guidance of

70 Australian Livestock Exporters' Council, *Submission 16*, p. 14.

71 Mr Graham Daws, Australian Livestock Exporters' Council, *Committee Hansard*, Sydney, 9 September 2014, p. 57.

72 Australian Livestock Exporters' Council, *Submission 16*, p. 15.

73 Department of Foreign Affairs and Trade, *Submission 9*, p. 28.

local religious officials. Some slaughter facilities provide opportunity for buyers to view the slaughter of animals to ensure it occurs in line with their religious beliefs. Often, a premium is paid for freshly killed meat. Demand for live animals is particularly strong around some holidays and festivals such as Eid Al-Adha.⁷⁴

5.59 Australian livestock, particularly sheep, are preferred to imports from other countries in some Middle Eastern markets due to their consistent high quality and favourable disease status.⁷⁵

5.60 The Chairman of the Australian Livestock Exporters' Council (ALEC), Peter Kane, asserted that the growing numbers of Australian livestock sold into Middle Eastern markets showed that those communities wanted a choice in how they obtain their meat:

That represents a demand from several million people in the Middle East for Australian meat derived from live animals, because those people all have a choice to buy a processed in Australia product, produce processed in an abattoir somewhere else around the world or a live product from Australia. Millions of people are ultimately saying, 'We want live product.' So, as we have been saying through the course of our presentation, there are market segments: there is definitely a place in the Middle East for boxed product and very clearly there is also a place in the Middle East for live product.⁷⁶

5.61 Chairman of the Australian Processor Council of the Australian Meat Industry Council (AMIC), David Larkin, told the Committee what he perceived would be the impact on meat processing in Australia from any hypothetical banning of the live animal exports, a rival industry, in the future:

The red meat industry post farm-gate takes a very mature approach to what is a competitor industry. My comments, with that in mind, are that historically markets, as they are opened, are opened with live-animal exports and then as they grow in terms of value, technical capability and spending capacity move from live-animal exports to frozen product and then to chilled product and

74 Department of Agriculture, *Submission 27*, p. 11.

75 Department of Agriculture, *Submission 27*, p. 11.

76 Mr Peter Kane, Australian Livestock Exporters' Council, *Committee Hansard*, Sydney, 9 September 2014, p. 57.

then to high-end chilled product. I cannot think of an exception to that.⁷⁷

- 5.62 AMIC does not support banning of any Australian export industry and argues the Middle East still has markets that culturally want to process live animals:

The live product itself has challenges and they are not easy to satisfy. The Middle East is the one market that probably still has some cultural hankering for the ability to freshly kill the animal. Where we might be assisted with that is getting logistically to the market, and expiry dates on our product so that processed product out of Australia is challenged to compete in that market.⁷⁸

- 5.63 Mr Kane stated there are a number of opportunities for Australian industry and government to work more closely with importers and governments in the Middle East to strengthen commercial and cultural links:

Such opportunities are being realised through the recent signing of health protocols with Bahrain and Iran as well as significant interest emerging from markets such as Iraq. We welcome the strong support of the Australian government and its increased determination to open more markets. We are ambitious enough to pursue a global export target of five million head by 2016 and see further increases beyond that. The Middle East will play an important part in achieving that goal.⁷⁹

Delegation discussions relating to live animal exports

- 5.64 During the Committee delegation's visit to Saudi Arabia, the issue of Australia seeking to impose ESCAS on how Saudi Arabians handle and slaughter Australian livestock exports was first raised at a meeting with members of the Shura Council. The Saudi Ambassador to Australia, HE Mr Al Saleh, who was present, declared ESCAS was a sovereignty issue, and that ESCAS was interfering beyond Australia's borders. Member of the Shura Council, Dr Sultan bin Hasan Al-Sultan, advised the Committee delegation that Saudi Arabia had good standards when slaughtering

77 Mr David Larkin, Australian Meat Industry Council, *Committee Hansard*, Sydney, 9 September 2014, p. 14.

78 Mr David Larkin, Australian Meat Industry Council, *Committee Hansard*, Sydney, 9 September 2014, p. 14.

79 Mr Peter Kane, Australian Livestock Exporters' Council, *Committee Hansard*, Sydney, 9 September 2014, p. 55.

- animals. He called for both countries to work together on resolving the issue and respect each other's differences.
- 5.65 The Deputy Minister for Foreign Affairs, Dr Abdullah Al-Obaid, at Saudi Arabia's Ministry of Commerce and Industry, declared at the meeting with the Committee delegation that Saudis were 'merciful' with their animals. Dr Al-Obaid conceded while Saudi Arabia had other sources for live animals, many Saudis still prefer the meat from Australia.
- 5.66 At a meeting in Kuwait City at the Ministry of Foreign Affairs with the Assistant Foreign Minister for Americas, Ms Reem M. Al-Khaled, the Committee delegation asked how Kuwait viewed ESCAS. Kuwait is Australia's largest export market for live sheep. Ms Al-Khaled said the Government supported the current situation with ESCAS, and were happy to comply.
- 5.67 The following day the CEO of the Kuwait Livestock Transport & Trading Company (KLTT), Mr Osama Khaled Boodai, told the Committee delegation that his company had accepted ESCAS, and made the necessary changes. KLTT also had their staff engage with ESCAS training, and the company intended to remain a major importer of Australian sheep. Mr Boodai expressed a concern about any concessions on ESCAS to Saudi Arabia, as it may give a regional competitor an advantage after all the work done by KLTT.
- 5.68 The Committee delegation was interested in KLTT's investment in a upgrading its facilities and its transport fleet. KLTT will open a new 84,000 sqm slaughterhouse in 2016 capable of processing 16,000 sheep a day using six lines of meat processing. It has also invested \$80 million on a new livestock transport ship, the *Al Kuwait*, able to transport 80,000 sheep. The *Al Kuwait* will mostly collect sheep from Fremantle, Port Adelaide and Portland.
- 5.69 Mr Boodai explained to the Committee delegation about 50 per cent of sales are boxed directly to consumers. KLTT provides a home delivery service of its meat for clients that included allowing them to select the animal they want from the stockyard, the animal being slaughtered, sent to the meat processing plant, cut into quarters, boxed, and then home delivered. The cost of 15kg of freshly slaughtered and processed sheep, chilled, boxed and home delivered was estimated at 39 Kuwaiti Dinar or \$180. Mr Boodai stated this service was very popular during religious festivals as the Kuwaiti consumer wants their meat slaughtered in country. About a 1,000 people a day bring their children along to choose their own sheep.
- 5.70 KLTT owns facilities in the UAE and supplies sheep and chilled boxed meat to markets in the UAE, Bahrain, Oman and Qatar. Mr Boodai stated

that live sheep from Iran was also major competitor to Australian livestock, with Iran exporting 700,000 a year.

- 5.71 KLTT also wanted to import Australian cattle for processing in an ESCAS approved slaughterhouse but had been waiting eight months on final approval from the Australian Department of Agriculture. Mr Boodai informed the Committee delegation that it normally took the department one month to approve a slaughterhouse for sheep, but the approval of this cattle facility was taking much longer than he expected. KLTT had been the subject of three audits but no approval came through after the modifications required to the slaughterhouse were made. The last audit was in about August 2015, and KLTT was subsequently losing interest in Australian cattle and beef.

Committee comment

- 5.72 The Committee acknowledges that live animal exports into the Middle East markets remain a fraught issue in both Australia and Saudi Arabia.
- 5.73 At the centre of the debate is the Australian-developed Exporter Supply Chain Assurance System (ESCAS), which was introduced in July 2011 in response to footage of the mistreatment of Australian animals in Indonesian abattoirs that led to a temporary suspension of the trade to Indonesia.
- 5.74 Despite concerns about the implementation of ESCAS, the Committee notes that the Middle Eastern countries of Bahrain, Egypt, Israel, Jordan, Kuwait, Oman, Qatar and the UAE, all import many hundreds of thousands of Australian livestock, mostly sheep, under ESCAS.
- 5.75 The Committee is aware, however, that ESCAS remains an issue for the Saudis. Saudi Arabia's concern about the implementation of ESCAS impinging upon its sovereignty has meant Australia has not exported any live animals to what was once one of its largest markets since August 2012. Saudi Arabia is now importing eight million head of all species per annum, mostly from the Sudan.
- 5.76 While the Saudis do not need Australia to supply livestock, the Committee is also aware of Saudi Arabia's interest in Australian sheep because those sheep have the quality and hygiene standards they require.
- 5.77 The Committee is also mindful of the pitfalls of changing an established ESCAS, or making concessions to Saudi Arabia, and the risk upsetting existing customers such as the Kuwait Livestock Transport & Trading Company that has invested many millions of dollars upgrading their abattoirs, feedlots and ships to accommodate ESCAS.

- 5.78 The Chairman of the Australian Livestock Exporters' Council (ALEC), Peter Kane also told the Committee that ESCAS places his industry on a firmer footing, providing greater transparency and certainty around the delivery of animal welfare outcomes that meet both international standards and the standards expected by the Australian community. But its implementation has also come at a significant cost with the loss of Saudi Arabia as a customer.
- 5.79 The Committee is aware that ESCAS remains a costly and complex system that discourages some commercial parties from participating in the live animal trade.
- 5.80 The Committee therefore recommends that efforts be made to address Saudi Arabia's sovereignty concerns while retaining ESCAS in an acceptable form.

Recommendation 3

The Committee recommends that the Australian Government explore with the Government of Saudi Arabia whether the appointment of an independent auditor to monitor implementation of the Exporter Supply Chain Assurance System would meet Saudi Arabia's sovereignty concerns.