SUBMISSION BY THE WORLD SOCIETY FOR THE PROTECTION OF ANIMALS (WSPA) TO THE SENATE SELECT COMMITTEE ON AUSTRALIA'S FOOD PROCESSING SECTOR

Introduction

The World Society for the Protection of Animals (WSPA) welcomes the opportunity to make this submission.

The basis of it is our opposition to the live animals export trade and the existence of policies and structural impediments that favour this trade and threaten the competitiveness and future viability of Australia's meat processing sector in global markets.

WSPA accepts that the meat processing sector is a private sector activity. In the context of free trade, the private sector should be allowed to invest and make a profit, whilst also meeting its ethical, safety, workplace and other obligations – and to compete against the rest of the world. However Government can play an important facilitative role in terms of overseas trade barriers and traditional industry support measures.

It is WSPA's contention, based on commissioned research undertaken by ACIL-Tasman, that the policy instruments that are key drivers of the live animal export trade and that contribute to threatening the viability of Australia's meat processing sector are tariffs, subsidies and qualitative and quantitative restrictions (all of which are trade distorting actions), imposed by the governments of live cattle and sheep importing counties. They favour the live animal trade and have consequential and negative impacts on Australian meat processing, regional employment, and ultimately the development of regional Australia.

- In recent years there has been a significant drop in the number of meat processing establishments in Australia. In part this consolidation is due to increasing vertical integration and industry rationalisation to provide scope for greater economies of scale. But especially for sheep processors it is also partly due to the direction of animals to the live animal trade.

It is also our contention that there are a number of policy actions that the government could and should undertake to remove the current market distortions and encourage the growth of Australian meat exports, thereby facilitating the future viability of Australia's meat processing sector and at the same time removing key drivers of Australia's cruel and ultimately unsustainable live animals export trade.

Tariffs, subsidies and quantitative restrictions

<u>Sheep</u>
About 90 percent of Australia's live sheep exports go to the Middle East, mainly to the Gulf Cooperation Council states (Qatar, Saudi Arabia, Bahrain, United Arab Emirates, Kuwait, and Oman).

The GCC countries do not impose tariffs on the importation of live sheep. But with the exception of the UAE they all impose a 5 percent ad valorem tariff on the importation of frozen and chilled sheep meat and edible sheep offal.

- Kuwait, Bahrain and Qatar are estimated to have paid in 2010 subsidies for the importation of live sheep of USD249 million – against an f.o.b. value of AUD207 million for live exports to those countries and an f.o.b. value for total live sheep exports in that year of AUD321 million.

- There is also subsidised water, feed, and infrastructure to support the importation of live sheep.

Cattle
Indonesia is the largest single importer of Australian live cattle, and accounts for some 75 percent of Australian live cattle exports. It engages in a number of market distorting activities that impact Australia's live cattle exports and its beef exports.

- It does not impose tariffs on live imports but it does impose quantitative restrictions.
  - In December 2011 it imposed a restriction on the number of live cattle imports it would allow from Australia in 2012 to 280,000 animals, down from 520,000 in 2011.
  - It also imposes weight limitations for imported cattle of 350 kilograms per animal.
- It imposes tariffs on meat imports.
  - Under the terms of the Australia-ASEAN-New Zealand Free Trade Agreement (AANZFTA) which came into effect on 1 January 2010 Indonesia was to eliminate the 5 percent tariff on beef imports except for the tariff (5 percent) on boneless (fresh, chilled or frozen) which will not be eliminated until 2020, and "other cuts with bone in" which are excluded from tariff commitments.
- It also imposes quantitative restrictions on the amount of boxed beef and offal imports it allows to be imported.
  - In 2011 Australia exported 41,000 tonnes of boxed beef and 14,200 tonnes of offal to Indonesia but for 2012 a limit of 34,000 tonnes total of boxed beef and offal imports from all overseas suppliers has been imposed.is in place.

Structural impediments to increased domestic processing of sheep and cattle

Sheep
ABARES reports that between 2001 and 2010 sheep numbers declined from 111 million to 68 million, a decline of 39 percent.

- But MLA sheep industry projections in August 2011 cite preliminary ABS estimates that indicate the Australian sheep flock was 74.3 million head as at 30 June 2011, an almost 5 percent increase on the previous year – beginning to reverse the long term liquidation of the flock. MLA also forecasts the flock will grow in 2012 by another 4.2%, to 77.4 million head. With the seasons assumed to return to more normal conditions from 2013, the flock should expand at a slower rate, settling at a forecast 82.65 million head in 2016 – 17% above the low point in 2010.

There are no structural impediments other than restricted supply of sheep brought about by diversion of animals to the live trade, to the ability of processors to process more sheep domestically. WA sheep meat processors in particular have significant spare capacity and the ability to absorb large increases in numbers of sheep for domestic processing. Indeed, WSPA understands from its consultations with major processors that if there is no growth in domestic processing it is likely that a number of processors in WA will go out of business

Also there is no impediment regarding the sale of more sheep meat that are processed domestically. ABARES estimates that from 2007-50 the global demand for sheep meat will double and on the back of this predicts a tripling of the value of Australian sheep meat exports over the same period.

<u>Cattle</u>
One impediment to growing the domestic processing of cattle, especially for northern Australia cattle producers is access to a processing facility in northern Australia. Access to such a facility would expand and diversify the market opportunities available to northern cattle producers and reduce their reliance on the live cattle trade.

Commissioned research undertaken by ACIL Tasman for WSPA to analyse the costs and benefits of increasing the amount of Australian sheep and cattle processed domestically that would otherwise be exported live concludes that a facility in northern Australia processing 400,000 head per annum could have substantial benefits to the regional economy and to northern beef producers.

The ACIL Tasman research notes however that the viability of a northern Australian processing facility depends on work by government to incentivise the livestock and meat processing industries in northern Australia to overcome issues such as seasonality of animal supply, transport infrastructure, energy, water and labour.

- We understand AACo is prepared to build an abattoir in the Northern Territory subject to the provision of funding assistance from government relating to the above mentioned issues.

As for sheep, there is no impediment regarding markets for more beef processed domestically. ABARES estimates that from 2007-50 the global demand for beef will double and on the back of this predicts a doubling of the value of Australian beef exports over the same period.

Benefits of growing the domestic processing of sheep and cattle

The ACIL Tasman research for WSPA shows there would be net benefits in terms of rural employment, increased productivity and returns to regional Australia and the rural sector.

<u>Sheep</u>
ACIL Tasman's research concludes that domestic processing of sheep:

- Has a higher multiplier effect (extent to which expenditure in one area stimulates additional expenditure in other areas), than that associated with the live sheep trade;
- Has greater value added (difference between sales price and production costs), - A$42-47 (2009 estimates), per sheep processed domestically versus A$36 per live sheep exported;
- Contributes more to WA's Gross State Product (i.e. value of goods and services produced in WA), - for every $100 of additional output created by processing sheep in WA the state's GSP would be $101.50 higher, whereas for every $100 of additional output currently created by exporting live sheep the State's GSP is $81 higher.

WA sheep meat processors estimated in 2009 that industry turnover could potentially rise from approximately $700 million per annum to $2 billion per annum. They estimated the total number of jobs in the industry would increase to about 4,000 from the 2,000 then employed. Existing capacity would be better utilised by:

- Moving from a single shift to double (or even triple) shifts;
- Increasing the number of days of operation from 5 days per week (and less in some instances), to 7 days per week.

Cattle
Access to a regional processing facility in northern Australia would expand and diversify the market opportunities available to northern Australian cattle producers and reduce their reliance on the live cattle trade.

ACIL Tasman's research concludes that a regional facility processing 400,000 head per annum could:

- Contribute an additional $204 million per annum to the regional economy;
- Create an additional 1,300 jobs in the region;
- Enable northern Australian beef producers to increase their earnings before interest and tax by up to 375 percent by selling heavier animals (400kg instead of 300kg as limited by current Indonesian requirements).

What should government do to grow domestic processing of sheep and cattle?

There are a number of activities the government should undertake in this regard. It should undertake:

1. Trade initiatives

   - In the current Australia-Gulf Cooperation Council free trade negotiations it should seek to negotiate, as a priority, the removal of market distortions such as discriminatory tariffs and subsidies that favour the importation of live animals over processed sheep meat.
   - In negotiations relating to the Indonesia-Australia Comprehensive Economic Partnership Agreement with Indonesia (IA-CEPA), it should seek the removal, as a priority, of market distortions such as discriminatory tariffs and subsidies that favour the importation of live animals over processed meat.
   - It should seek to persuade the Indonesian government that its objectives regarding the adequacy and surety of its meat supply can best be achieved by focussing on food security rather than self-sufficiency.

2. Marketing initiatives

   - In cooperation with industry aggressively promoting a "fresh meat from Australia" brand;
   - Research and development of new markets and expansion of current ones for Australian sheep meat and beef – improving competitiveness and market surety.

3. Structural initiatives

   - Encouraging and assisting Australian sheep and cattle processors to maximise operational and process efficiencies, whether through economies of scale or process improvements (some reports show that processors would expand operations if they had access to more stock).
   - Facilitating the establishment of a northern Australian meat processing facility by
     - Providing land;
     - Addressing the seasonality of cattle supply in northern Australia through research and extension work on rangeland management, grazing management, herd structures and genetics and business management;
     - Ensuring better infrastructure such as all-weather access roads;
     - Assisting with the supply and connection of utilities;

- Encouraging the integration of Indonesian and Australian interests through a joint venture or equity acquisition by Indonesian participants in a meat processing facility.

4. Aid initiatives

- In cooperation with Indonesian authorities and with support from the Australian meat industry and producers, utilising Australian aid funds to improve the Indonesian cold chain and provide training to Indonesian slaughtermen and to improving animal husbandry generally.