

Submission to the “Animal welfare standards for Australian live exports” Senate Rural Affairs and Transport References Committee Inquiry¹

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Introduction

Trade bans often signal a lack of ideas or an attempt to constrain market forces, driven by the more vocal or influential rather than the majority or evidence-based policy analysis. The recent ban on livestock exports to Indonesia seems a prime example of this situation, with a Ninemsn survey of the issue at the time indicating more than 50 per cent of respondents were against the ban which had no evidence-based policy analysis to support it. In a more recent Ninemsn survey on the removal of the ban, and following greater public information on the ban’s consequences, the number of respondents in favour of this U-turn was double those who were not in favour.

Few countries will respond positively to threatening and embarrassing bans, in fact they generally do the exact opposite as Indonesia did in this case. A better policy approach would have been for Australia to have remained engaged with Indonesia, trying to improve the situation with education in terms of better treatment of animals by building on decades of collaborative agricultural research between the two countries, including on policies, such as that developed by the Australian Centre for International Agricultural Research (ACIAR). Research funded by ACIAR has shown a high value of returns to both countries on research in improving the Australian-Indonesian cattle-beef supply chain, but the imposition of a trade ban crudely discards these gains.

The livestock trade between Australia and Indonesia developed off comparative advantage in both countries. Extensive far northern Australia has a comparative advantage in rearing young cattle. Near neighbour Indonesia has a comparative advantage in fattening and processing such cattle into Halal markets within their region, for example through its cheaper labour costs. Australia is relatively disadvantaged in such processing (with the exception of premium product) by arrangements such as the tally system with labour employment conditions based on a fixed number of animals being slaughtered per day and, in the process, all the benefits of any productivity improvements going to what have become part-time labour in under-utilised facilities, discouraging investment in processing facilities. Meat processing unions and other bodies with such vested interests pushing for a ban on live trade will not help their cause at all.

The problem in the Australian–Indonesian livestock trade until recently was that an Indonesian trade ‘ban’ applied; administered by not issuing import licenses, restricting trading ports and the like. This was driven by a self-sufficiency policy that involves aspects such as credit subsidies that, to be effective, need to be very costly from an economic perspective, either by restricting competitive trade or the extent of subsidies (estimated in joint ANU, University of Adelaide and Indonesian Ministry of

¹ This submission is based on a 27 June 2011 posting to the ANU’s East Asia Forum Weekly Digest, responses received and Press reports such as in the Australian Financial Review on this, and subsequent events such as the announced conditioned removal of the Indonesian live exports trade ban.

Trade research to be of the order of \$5 billion over five years for 90 per cent self-sufficiency (Vanzetti, Setyoko, Trewin and Permani 2010)). In contrast, a policy aimed at improving Indonesian productivity through R&D was estimated to be far more cost-effective and could be targeted to improved animal welfare. Such R&D is quite diverse and could include humane killing, which is in a producer's own interests as a traumatic killing generally results in tougher meat that must be sold at lower prices. In fact, R&D of this kind is already provided voluntarily through non-government channels; for example Australia's Livecorp, in a world first, has been developing a strategic vision for improving animal welfare in Indonesia and private companies such as Elders have introduced animal welfare improvements into various stages of their integrated supply chain that takes Australian cattle through to Indonesian beef.

The role and effectiveness of government, the MLA, and Livecorp and relevant industry bodies in improving animal welfare in Australian live export markets

The Australian ban on livestock exports to Indonesia would have been ineffective in the various guises that were put forward if the policy objective was better, more humane, treatment of livestock in Indonesia. At first the policy seemed to be specific abattoir-focused, which was never going to be enforceable in the current system. It then shifted to Indonesia as a whole, but again this would have been ineffective as Australian livestock could have been traded to countries such as the Philippines and then on-sold to Indonesia at little cost given the freer trade among ASEAN members. A subsequent variant then seemed to be to ban livestock exports altogether to avoid the WTO embarrassing Australian agricultural trade policy again, as it has with our non-economic, protectionist quarantine policies, by disapproving of such country-specific policies. It should have been expected that any trade-related policy would have been ineffective in addressing a non-trade issue like animal welfare (see the Productivity Commission (2010) on the inappropriateness of trade policies indirectly addressing non-trade issues like animal welfare).

The recently announced removal of the ban on live cattle exports to Indonesia had conditions requiring exporters to be able to track the cattle along with independent auditing of international standard animal welfare practices linked to the government allocation of export licenses. This builds on some of the animal welfare education that has been undertaken by Livecorp and investment by private companies such as Elders. Although this appears an effective approach to improving animal welfare in Australian live export markets, what are the full economic costs of this approach?

The domestic economic impact of the live export trade within Australia

The main certainty of a trade ban from an Australian economic impact perspective is that it would cost internationally-competitive Australian jobs to competing exporters like New Zealand or Brazil (via live or slaughtered meat trade competition²). The loss of jobs directly involved in the live export trade (graziers, transporters, port workers

² New Zealand banned the live export of cattle for slaughter some years ago but still has significant exports of breeding cattle. These cattle will end up being slaughtered, either immediately following their transport because they do not meet required conditions (e.g. "uninjured") or when they are worth more slaughtered than being kept as breeders. This situation is another illustration of the ineffectiveness of a trade ban to address improving animal welfare.

etc) is obvious and these cannot be transferred to the slaughtered meat trade as processing is generally an uncompetitive value- “subtracted” activity as discussed earlier. These job losses would have a multiplier effect into local communities.

The conditions described earlier that are required for removing the ban will increase costs and could price Australia out of the live trade market, letting growing competitors in the Indonesian market like India, which has a Free Trade Agreement with ASEAN, take over. Decreased export demand from the lower competitiveness will, like a trade ban, increase domestic supply and lower domestic prices, more so in the short-term. In the longer-term as domestic supply shrinks, regional businesses and communities will also shrink. Compensation is no sustainable solution to this situation.

Also in the short-run, the downward shock to export demand would lead to overcrowding of stock and poorer production as well as negative animal welfare outcomes. These last outcomes are another illustration of how good economic production system outcomes automatically deliver good animal welfare outcomes, and vice versa. Culling will be required to address these production, animal welfare and environmental problems. Thus the ban has just shifted animal welfare problems from abroad to Australia.

A trade ban may also induce retaliatory action by trading partners, most probably a ban or trade constraints, as occurred immediately after the Australian ban with a counter ‘ban’ by Indonesia on Australian cattle. Such actions could escalate to meat imports or even other key imports like wheat, favouring competitors like the United States or Canada. But, ultimately, no one wins in a trade war and Indonesia would lose as well as Australia in such retaliatory actions.

There are broader commodity impacts than just live cattle from a ban on their export. All the efforts of trying to convince Indonesia and others that trade is a better way to address food-security concerns than self-sufficiency policies (which is dependent on a strong certainty of supply through trade) has been badly, if not permanently damaged by the Australian ban on live exports of cattle to Indonesia. Australia has gained from being seen as a reliable supplier following not joining a veto of grain trade with China many years ago, just as Thailand has gained more recently in terms of greater demand for its rice by not constraining its rice trade during recent price hikes in contrast to Indonesia and many other countries. The opposite has happened as a result of the trade ban. Indonesia has already stated that it will be cutting back on Australian imports of cattle and meat next year, with these being replaced most likely by cheaper non-conditioned imports from ASEAN or other free trade partners, and this action may flow over to other commodities like wheat. The conditions required for the removal of the trade ban do not address this costly misjudgement. Australia needs to make a very strong commitment that it will again become a reliable supplier and forever. The WTO is becoming more concerned with the negative impacts of export taxes, bans (an extreme of a constraining tax), and like policies, and Australia should lead the way in addressing these concerns.

Other related matters

Pooled marketing has been mentioned in conjunction with the trade ban and its aftermath. It is not clear if there is any relationship between pooled marketing and animal welfare outcomes. In fact the opposite could be the case. Free range eggs receive a premium that encourages its growth relative to other production systems with different animal welfare impacts but pooled marketing would destroy such incentives. On the other hand, such marketing can have large costs in terms of economic efficiency, equity etc (see the Bureau of Agricultural Economics (1985) in relation to the Western Australian Lamb Marketing Scheme).

Conclusion

It would have been better all round if the trade bans had been banned, forcing more thoughtful, efficient policies to have been applied at the outset. The conditions required for the removal of the trade ban are animal welfare policies that address an animal welfare problem in what appears an effective way that mimics some private companies' approaches, not a trade-related policy like a "non-trade" ban that would be ineffective in addressing indirectly related animal welfare problems. However, these animal welfare policies do not address all the negative impacts that the ban on live exports has had on the Australian economy. Australia's reputation as a reliable supplier has been badly damaged. There needs to be a Productivity Commission inquiry on the whole situation which should consider options such as legislating against such threatening ineffective trade bans, and assess any animal welfare benefits and economic costs of pooled marketing.

References

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