PARLIAMENT OF AUSTRALIA

SENATE STANDING COMMITTEE ON RURAL AFFAIRS AND TRANSPORT

ANIMAL WELFARE STANDARDS IN AUSTRALIA'S LIVE EXPORT MARKETS

AMIEU Submissions

15 July 2011

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1 Terms of Reference – Animal Welfare

"1. Investigate and report into the role and effectiveness of Government, Meat and Livestock Australia, Livecorp and relevant industry bodies in improving animal welfare standards in Australia's live export markets, including:

a) The level, nature and effectiveness of expenditure and efforts to promote or improve animal welfare standards with respect to all Australian live export market countries;

i) expenditure and efforts on marketing and promoting live export to Australian producers;
ii) ongoing monitoring of the subscription to, and practise of, animal welfare standards in all live export market countries;
iii) actions to improve animal welfare outcomes in all other live export market countries and the evidence base for these actions.

b) The extent of knowledge of animal welfare practices in Australia's live export markets including:
i) formal and informal monitoring and reporting structures;
ii) formal and informal processes for reporting and addressing poor animal welfare practices."

The AMIEU addresses these issues below. In dealing with what we describe as this Inquiry's "economic" terms of reference later in this submission, our position is that the live export industry should be phased out over a three year period. However where Australia is exporting to destinations that do not have an animal welfare structure and regime broadly equivalent to Australian standards (AS 4696), the trade should be ceased immediately.

In 1985, the last Senate committee to examine the live export sheep trade concluded that if a decision were to be made purely on animal welfare grounds, "*..there is enough evidence to stop the trade*" (Senate 1985: 185). We arrive now 26 years later with yet another in a long line of public scandals involving poor animal welfare in the trade. It begs the question as to how much longer the industry will be allowed to drag Australia's international and domestic reputation through the mud on the oft repeated promise of making animal welfare improvements in the future.

The examination below details the live export industry's preoccupation with its own image, low levels of investment in actual animal welfare improvements (despite a huge revenue base and huge reserves) and widespread knowledge of poor animal welfare practices in major live export destinations.

If there was enough evidence to stop the trade on animal welfare grounds in 1985, regrettably the situation hasn't improved in 26 years and should be stopped now.

1. *The Live Export Public Relations/Public Communications Cartel*

A convenient starting point before examining industry expenditure on animal welfare improvements is to take stock of what is spent on public communications. Traditionally, the detail of what MLA and LiveCorp have allocated has been difficult to source. They are matters of internal organization and budgeting that do not find their way into Annual Reports.

Some details have emerged however following a review of increases in livestock industry levies. An additional industry marketing levy increase of $1.50 per head was introduced in 2005, taking the existing total levy from $3.50 to $5.00. As part of the terms of that increase, an independent review was commissioned to examine the effectiveness of programs that had been either initiated or enhanced by the additional revenue. That review report was delivered by Warwick Yates & Associates in April 2009[1].

[1] See http://www.mla.com.au/About-the-red-meat-industry/About-MLA/Company-overview/How-MLA-is-funded/Beef-Levy-Review-2009 for a copy of this review report.

The review gives a valuable insight into industry expenditure on public communications designed to promote and enhance the standing of the live export industry.

A new "Community Concerns Program" was introduced in 2006/07. The objective for the program was to "improve community awareness and support of the Australian livestock export trade" . The motivation for funding this new program out of increases in levies was as follows:

> *".....a number of high profile incidents including the Cormo which received worldwide attention, the industry came under significant media scrutiny with several negative stories broadcast nationally on Channel Nine's 60 Minutes program. At the same time animal activist organizations including PETA and Animals Australia launched well organized campaigns against the industry with the goal of forcing its closure through public pressure upon the Government."*
>
> (Warwick Yates 2009: 98-99)

It was also identified that as part of the Community Concerns Program, a bigger spend would be necessary to build "trust" and "confidence" in beef farmers so as to make more plausible any direct messages that were being sold on the live export front. This aspect of the Community Concerns Program is described as the "Industry integrity communications" area.

The net result is that spending on the Community Concerns Program soared from $0.347 million in 2004/05 to $1.729 million in 2008/09:

Community Concerns Program expenditure

Year	**Live export communications**	**Industry integrity communications**
2004/05	$347 000	
2005/06	$400 000	
2006/07	$840 000	$913 000
2007/08	$643 000	$913 000
2008/09	$725 000	$1 004 000

Source: Warwick Yates (2009: 99) quoting figures provided to them by MLA

Stock must also be taken of the public relations/communications spend LiveCorp allocate each year. Recent figures obtained from their Annual Reports indicate the following:

Year	Allocation
2010	$236 295
2009	$271 718
2008	$357 208
2007	$181 435

Of greater concern is that LiveCorp has developed a "war chest" of funds amounting to $1.3 million. In 2009, $1.189 million was transferred from the Australian Livestock Export Corporation Limited (LiveCorp) to Livestock Export Reserve Fund Limited. The latter corporation was created in late 2008. It's last filed annual report filed with ASIC indicates that its purpose is to pay all or part of the fund's capital to LiveCorp or the ALEC:

> *"..in the event that there is an immediate risk of insolvency to LiveCorp or ALEC* ***or where there is an industry emergency which is best managed by LiveCorp or ALEC."***
>
> (emphasis added)

The increase in industry levies sought to increase revenue by an additional $21.2 million per annum (Warwick Yates 2009: 2). Over the period of 2005/06 to 2007/08 some $50.21 million was realized, bearing in mind only $7.442 million was obtained in 2005/06 due to the introduction of the increase in only part of that period (Warwick Yates 2009: 2).

We have scrutinized the Warwick Yates review carefully. We are unable to find any increased allocations or new programs actually directed at improving animal welfare in the live export trade.

The industry response, no doubt, will be that the levy increase was solely for the purposes of marketing. However a position of this nature creates as many problems as it solves. It simply indicates that a greater emphasis is placed by the industry in raising revenue to improving its public standing and image as opposed to raising revenue to deal with animal welfare issues.

What can be said is that in the period 2008/09 alone, combined spending by the live export industry to defend and promote the trade was around the $2 million mark. As we have seen above, the largest focus of this spend was directed towards fending off perceived attacks from animal welfare activists. It is now time to examine what typically gets spent each year (in recent times) towards actually improving animal welfare in the live export industry.

2. *The Live Trade Animal Welfare Partnership*

This is the principal program for improving animal welfare in the live export trade. It is a joint program between the Australian Government and MLA/LiveCorp. The 2009/10 budget allocation was for $3.2 million over three years, with matching contributions from the Australian Government and MLA/LiveCorp.

Accordingly, each year the program delivers a little over $1 million in animal welfare improvements in the live export trade, of which industry's share is a little over $500 000.

We arrive now at the following conclusion: For every $1 the live export industry actually spends on animal welfare improvements, it spends $4 in public campaigns to promote its animal welfare record and fend off attacks by animal activists.

This skewed and twisted demonstration of priorities speaks for itself. It reflects woefully on the industry. It speaks volumes as to how much credibility can actually be attached to the websites, newspaper advertisements, glossy brochures and "schooled up" public spokespersons telling us that animal welfare is a major priority for the industry.

The outcome of any report in this Inquiry must be that the live export industry can no longer be trusted to regulate itself in relation to animal welfare. The industry is highly unlikely to ever allocate appropriate and proportionate amounts of expenditure that will actually improve animal welfare outcomes.

In passing, we note that $1.6 million of Australian taxpayers' money is being provided in this program. This amounts to direct subsidization of the industry, a practice that Australian governments of every political shade have eschewed in their public rhetoric and at WTO and other international economic forums.

It is of considerable concern that Australian taxpayers are currently funding improvements to abattoirs, lairage facilities and feedlots in the oil rich nations of the Middle East. The GDP per capita of these nations is often so close to Australian terms that it is obscene. Australian taxpayers should not fund the livestock industries of these nations. As we shall see later in this submission, Kuwait, Qatar and Bahrain currently willing to provide huge subsidies to importers of live sheep. It is not as if they are without resources to address these issues.

The outcome of any report in this Inquiry must be that the Australian Government must withdraw its contribution to improving animal welfare in the live export trade. It is the live export industry's responsibility and the industry must meet it. As we have seen above, it is not a situation where they are without revenue to address the situation.

LiveCorp have an accumulated reserve fund of $1.1 million. MLA hold reserves of $39.769 million through the Red Meat Advisory Council "Reserve Fund" and a further $55.533 million as a retained surplus of part of $64.839 million in equity (MLA 2010: 55).

If the facilities in any importing nation are not up to a satisfactory standard, it is also the responsibility of that importing nation to address that situation or livestock should not be permitted to be exported to the destination. If there is a case based on "developing nation" status, it is more appropriately addressed through foreign aid programs where the merit can be properly assessed against other competing priorities.

3. *Industry Knowledge and Accountability in Relation to Animal Welfare Issues*

An examination of the MLA website indicates they have a presence in every major region that Australian livestock are exported to. MLA has a presence in Bahrain, Indonesia, Malaysia and the Philippines. An examination of the industry developed and maintained "Live Export Truth" channel on You Tube reveals a number of MLA personnel featuring "on location" at various international places where Australian livestock are exported to.

Any defense based on "we weren't aware of it" is simply untenable.

An examination of a range of reports produced by MLA/LiveCorp reveals that the extent of their knowledge of poor animal welfare practices has been very detailed. Overall, the theme of the industry response has been "export first – make gradual improvements to animal welfare later". Any improvements that have been made have been at a pedestrian pace and of highly questionable efficacy.

Indonesia

Indonesia has been a huge importer of Australian cattle over the last two decades. According to LiveCorp, 6.4 million head have been exported in the period. The graphic images of animal cruelty associated with "traditional slaughter" as seen on the Four Corners program "A Bloody Business" have been well known to MLA/LiveCorp for well over a decade, potentially much longer. MLA's website[2] contains the following statement:

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[2] "Important Facts About Livestock Exports to Indonesia" http://www.mla.com.au/About-the-red-meat-industry/Livestock-exports/Animal-welfare-in-Indonesia/Important-facts-about-live-exports-to-Indonesia

"In the early 1990's MLA recognized that a restraining devise was required to assist local operators improve the traditional Indonesian slaughtering practices."

The most comprehensive examination of the multitude of MLA/LiveCorp reports produced from 2000 until the present time is contained in "The Slaughter of Australian Cattle in Indonesia – An Observational Study" produced by the RSPCA in 2011 and authored by Dr. Bidda Jones. The AMIEU cannot usefully add to this comprehensive and accurate account. This Senate Committee must examine the report as part of its Inquiry.

Dr. Jones (2011: 7) accurately traces reports produced by MLA/LiveCorp in 2004, 2005 and 2008 that indicated a high level of knowledge about animal welfare issues in Indonesia[3]:

"In 2000, the live export industry, through Meat & Livestock Australia (MLA) and Livecorp, identified improving the traditional pre-slaughter and slaughter handling of imported Australian cattle in Asia as a priority (Beere & Pettiford 2005). The driving force behind this was to improve meat quality, operator safety and processing efficiency and thus increase the market price of imported Australian cattle (Beere 2004). Workers and slaughter facilities in Asia used to dealing with highly domesticated local breeds were unable to cope with the large, extensively raised Australian cattle unused to human contact. Thus the focus of investment in Indonesia was the installation of restraint boxes and associated training to facilitate handling and slaughter without stunning. In 2000, a prototype cattle restraining box was designed and built in Darwin which became known as the Mark 1 restraint box (Figure 1). The Mark 1 box provided a means of holding Australian cattle in an enclosed space while their legs could be roped: it did not alter the traditional method of casting (forcing animals to trip over onto their sides) and then being held down for the throat cut while fully conscious. In 2001 the first four Mark 1 restraint boxes were built and installed in Indonesia. There are now 103 Australian-designed Mark 1 restraint boxes installed in more than 50 different locations.

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[3] Beere, G. (2004) Developing an improved pre-slaughter restraining box for cattle, Project LIVE.309, November 2004, Meat & Livestock Australia Ltd, North Sydney.
Beere, G. (2008) Upgrade of an existing mark II cattle restraining box for ritual slaughter, Project B.LIV.0346, October 2008, Meat & Livestock Australia Ltd, North Sydney.
Beere, G. & Pettiford, S. (2005) Opportunities to improve slaughter standards and profitability in Indonesia, Project LIVE.229, June 2005, Meat & Livestock Australia Ltd, North Sydney.

Problems with the operation and animal welfare outcomes of the Mark 1 box were identified in 2003, and a Mark 2 design was proposed which allowed animals to be slowly tilted into a horizontal position, rather than tripped onto their side to fall onto a sloping concrete slab (Beere 2004). However, it appears that only two of these boxes were ever installed in Indonesia. In 2005, a consultants' visit to Indonesia was conducted to observe the MLA boxes in operation and advise on infrastructure and training issues. The consultants' report recommended an auditing process be introduced to measure performance on an animal-by animal basis, but it appears that this suggestion was not taken up (Beere & Pettiford 2005). In 2008, modifications to the Mark 2 design were proposed, but a technical review resulted in this design being abandoned (Beere 2008; Stark 2010). As a result of this review, a new Mark 4 design based on a rotating calf crush was developed (Figure 2) four of which have since been installed in Indonesia (Stark 2010; MLA & Livecorp 2011;). Despite these developments, under the Australian Government Live Trade Animal Welfare Partnership (LTAWP) with industry, Mark 1 boxes have continued to be built and used in Indonesia throughout this period, with a further 10 installed in 2010. An unknown number of 'copy boxes' (Indonesian built restraint boxes or pens based on the Mark 1 design) have also been brought into use as a result of this program."

Over a million dollars was spent in developing and implementing the "Mark 1" restraining box, a device that renowned animal welfare expert Temple Grandin described in these terms[4]:

"Oh the conditions are absolutely terrible. I mean you've got a box designed to make a cattle fall down. That violates every humane standard there is all around the world. Just absolutely atrocious conditions as far as the restraining and holding of the animal."

In May 2010, a report was produced by MLA/LiveCorp, "Live Trade Animal Welfare Partnership 2009/10 - Indonesian point of slaughter improvements". This was a report about what had been done with funds from the Live Trade Animal Welfare Partnership.

In this report there is an Appendix 1 - "Animal Welfare Conditions for Cattle in Indonesia From Point of Arrival from Australia to Slaughter". It was a panel report prepared by Professor Emeritus in Veterinary Science at Melbourne University, Prof Ivan Caple (head of panel), Prof. Neville Gregory, University of London; Dr Penelope McGowan, beef cattle veterinarian and

[4] Four Corners Interview, 30/05/11

member of the Australian Veterinary Association (AVA); and Dr Paul Cusack, a nutrition and feedlot expert.

The report indicates that in May 2010 the barbaric practices aired on Four Corners in 2011 were reported to MLA and Livecorp. In turn, DAFF received the report also.

For example:

1. **Casting** – this is the practice of causing the animal to fall on its side onto the concrete plinth used to ultimately slaughter the animal. Ropes are used. The fall can be a significant animal welfare issue. Where the animal regains its feet, the use of the ropes can lead to significant injuries through the animal becoming stressed and lashing out in an attempt to escape the situation, whilst having ropes secured around two of its legs. The likelihood of significant injury is high. The appendix report states at page 31:

   "Of the 26 acts of slaughter observed using restraining boxes:

   - *17% of animals went down and regained their feet on release from the restraining box. This was typically associated with the restraining ropes being too long and SOP not being observed."*

2. **Head thrashing** - graphic images were shown on Four Corners of beasts "cast" on their sides who then commenced to thrash their heads around, including smashing their heads into the concrete plinth used for slaughter. The appendix report states at page 31:

   "Of the 29 cattle slaughtered with and without restraining boxes:

   ... ...

- *On average, there were 3.5 head lifts per animal once cast.* ***<u>Head lifts were observed to pose a significant risk to animal welfare.</u>***

(emphasis added)

3. **Combination of the fall and head thrashing** - The appendix report states at page 31:

   "While restraining boxes were observed to significantly improve animal welfare, where the severity of the fall was severe and head slapping occurred, significant animal welfare issues were identified that should be addressed through the SOP and training."

4. **Eye gouging and tail breaking** - The appendix report states at page 34:

   "Some instances of unnecessary stimulation involving interference with the eyes and tail twisting were observed immediately prior to slaughter once the animal was restrained and cast."

5. **Excessive cuts attempting to sever carotid artery** - the Four Corners program aired footage of Slaughterers using up to 33 cuts to slaughter an animal. Professor Caple also indicated during an interview aired on the program that the panel had observed a similar practice of a Slaughterer attempting up to 18 cuts to slaughter an animal. This is confirmed by the appendix report at page 32:

   "In particular, at one abattoir in West Java, the incision was made with a single cut to the neck, whereas at an abattoir in Sumatra the neck was struck with a knife using a hard impact to sever the skin above the larynx and then up to 18 cuts were made to sever the neck and both arteries."

6. **False Aneurysm Formation** - false aneurysm formation is a significant animal welfare issue that really only a skilled, professional eye can pick up. The bluntest way it can be described is that it results in a slower painful death for the animal. Viewers of the graphic images on Four Corners could not be expected to be aware of it. The appendix report on page 32 indicates:

   "Although on all occasions both carotid arteries were completely cut, bleeding was significantly impaired in 10% of cattle due to false aneurysm formation in both carotid arteries, possibly resulting in extended consciousness. The SOP does not currently include guidelines for the management of occluded arteries and false aneurysm and slaughtermen were not observed to appreciate this as being a potential animal welfare issue."

7. **Throwing buckets of water at immobilized animals** - The Four Corners program aired footage of abattoir employees throwing buckets of water at immobilized animals just prior to slaughter. The appendix report at page 34 states:

   "Sensory stimulation, observed as disturbed behaviour in some animals, was apparent immediately prior to slaughter during the casting process and while restrained with ropes in recumbency. This was particularly apparent when buckets of water were thrown over the animal before slaughter."

   And at page 36:

   "The process of washing the animal by hosing or bucketing water immediately ante mortem caused unnecessary stimulation and reaction in the cattle. This washing was reported to be a requirement of Halal slaughter; however, this claim was not verified."

8. **Traditional slaughter**- Of the most graphic and horrific images shown on Four Corners, the "traditional slaughter" method was amongst the worst. This is the process where Australian cattle were subjected to a 20 to 30 minute process of "roping down" without the use of a restraining box. Cruel methods to force the animal to recumbency are often used.

   The appendix report at page 30 states:

   > *"Restraining boxes were observed to be used when available with traditional slaughter observed in one location."*

   And at page 33:

   > *"The slaughter of Australian cattle in Indonesia was assessed against the OIE Code. A range of facilities and slaughter methods were observed including traditional slaughter, assisted traditional slaughter incorporating restraining boxes and slaughter using westernised abattoir facilities."*

   The appendix report makes clear that of the 29 animals viewed being slaughtered, at least 3 were done by traditional slaughter.

It is to be steadfastly borne in mind that the appendix report on animal welfare issues in the slaughtering process only dealt with a small and random sample of 29 animals slaughtered. Yet all of the practices aired on Four Corners were quite apparent in this very small and random sample.

There is irrefutable evidence that as at May 2010, MLA and LiveCorp were put clearly on notice as to the animal welfare issues that were demonstrated graphically by the Four Corners program "A Bloody Business".

Moreover, the evidence was forwarded to DAFF. A significant issue is what action they took, if any, and whether the Minister was briefed on the situation.

MLA publicly denied any prior knowledge of these practices after they were aired on Four Corners on 30 May 2011. Its live export Manager, Mr. Michael Finucan, indicated publicly on television[5] that MLA had a general awareness of the problems occurring in Indonesia. This was followed the next day by a "clarification" posted on the MLA website (subsequently removed). The MLA Chair, Mr. Don Heatley, asserted in this "clarification" that:

> *"MLA had no prior knowledge of the brutal treatment of animals illustrated in recent media coverage, prior to being shown the footage."*

It is to be noted that Animals Australia and the RSPCA (and other animal welfare groups) have agitated their concerns extensively with DAFF and the responsible Ministers over this period. This long line of persistent attempts to go through orthodox channels has been consistently met with inertia, obstruction and indifference. Both organizations will no doubt extensively list these attempts in their own submissions.

Middle East

Footage shot in Indonesia by Animals Australia investigator Lyn White shocked many Australians.

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[5] ABC Lateline, 8 June 2011

Many may be unaware however that Ms. White and Animals Australia have shot many similar videos in the Middle East concerning the mistreatment of Australian sheep and cattle exported to that region. Examples are linked below.

- 2006 Videos – Egypt. Led to the suspension of live export trade with that Country.

  http://www.animalsaustralia.org/swf/video.swf?v=changeisneeded

  http://www.animalsaustralia.org/swf/video.swf?v=bassateen06

- 2007 Video Middle East –

  http://www.animalsaustralia.org/swf/video.swf?v=middle_east2007

- 2010 Video Middle East -

  http://www.animalsaustralia.org/swf/video.swf?v=live-export-investigation-2010&warning=1

Footage from this final piece was featured publicly on the ABC "7.30 Report" on 2 December 2010. It showed scenes of sheep and cattle being "trussed" with wire and rope; being dragged cruelly on their backs and stomachs; being slaughtered en masse in laneways in front of other live sheep; and being thrown (alive) into the boots of cars.

Minister Ludwig viewed the footage. His response was to release the following statement:

> *"The images provided by Animals Australia demonstrate that more work is required to achieve standards that are acceptable to the Australian community. I am working closely with both industry and animal welfare groups to find practical ways to ensure livestock exported from Australia are no longer exposed to this kind of treatment. The Government continues to support the live export trade."*

MLA, LiveCorp and the Australian Government are aware that this mistreatment is ongoing and cannot state honestly that it will be prevented. Nor do they state that it will ever be prevented. Nor have they taken any steps to prevent this cruelty.

Remarkably, Animals Australia and the RSPCA have been criticized trenchantly in the media for not having shown their Indonesian footage to the Minister and live export industry until just prior to its public release on Four Corners. It is said that they should have shown the footage to the industry and the Minister much sooner than this. It begs the question – why? Given the track record outlined above, no reasonable person could blame these organizations. There is a long line of prior attempts of this nature that has been met with indifference, excuses, minimization of the problem and glib promises for improvements in the future.

The root cause of many of the scenes of horror from Indonesia is a lack of the pre-stunning of animals before carotid arteries in the neck are severed.

MLA and LiveCorp are well aware that pre-stunning is not a common practice for the slaughter of sheep in the Middle East, with the exception of Jordan and a "trial" in Bahrain. A report on alleged animal welfare improvements in the Middle East as part of the Live Trade Animal Welfare Partnership (MLA/LIveCorp 2010). The following is an extract from that report, which was delivered to DAFF:

> *"A common feature of traditional slaughter that occurs throughout the Middle East is the process of slaughtering and skinning livestock on the floor. There is limited infrastructure in the form of lanes or lairage pen. This commonly has several associated welfare issues that accompany the floor operation. Animals are often herded into areas where they stand and are randomly selected and <u>slaughtered in front of other animals</u>, despite this conflicting with some religious requirements. Another concern is the poor handling that is often associated with the ground level processing. <u>Animals are more likely to be dragged from the lairage area to the point of slaughter and these practices are inconsistent with OIE guidelines</u>."*
>
> (emphasis added) (MLA/LiveCorp 2010: 6)

DAFF commissioned a report in 2009 titled "A Scientific Comment on the Welfare of Sheep Slaughtered Without Stunning". One of its major conclusions was:

> *"It is clear that slaughter by neck cut does not render sheep immediately insensible. Sheep may remain aware for at least 2-8 seconds following the cutting of major blood*

> *vessels of the neck. Depending on the interpretation of different behavioural and EEG measures as indicators of insensibility, the duration of this awareness may normally be in the order of 8-20 seconds. It might possibly be as long as 68–158 seconds, but this is not likely to be the case."*

Of the most horrific scenes from Indonesia, scenes from the "traditional slaughter" method were the most graphic. This is where an animal is progressively roped and forced cruelly to submit before having its throat cut, often with several attempts.

MLA and the Australian Government are currently aware that this is the only method used for cattle exported to Kuwait and Qatar (MLA/LiveCorp 2010: 18):

> *"Both facilities have no cattle restraining infrastructure. Animal welfare issues in these facilities result from the use of traditional slaughter methods with the roping and tripping of cattle to get them in a recumbent position for slaughter."*

Latest figures indicate 3013 head of Australian cattle were live exported to these two countries in the period July 2010 to March 2011 (MLA Livelink 2011: 2). It immediately begs the question: why hasn't the trade in cattle to these destinations been immediately suspended also?

The major solution proposed by MLA/LiveCorp is the installation of the controversial "restraining" boxes. The "Mark 1" restraining boxes have been previously installed for use in the Middle East by MLA/LiveCorp. MLA/LiveCorp is aware that the restraining boxes they have installed aren't even being fully utilized or maintained (2010: 15):

> *"Industry has previously installed restraining devices in the Middle East which have not been fully utilised or poorly maintained."*

MLA/LiveCorp conducted an assessment of sheep slaughtering facilities in Kuwait. Of 5 facilities assessed, it targeted 2 abattoirs for improvements. Significantly, it assessed 2 traditional "Bedouin" style facilities processing Australian Sheep. It did not recommend any improvements to these facilities (MLA/LiveCorp 2010: 15):

"The other facilities are all traditional (Bedouin style) operations with no automation or mechanical enhancements to assist processing efficiency, hygiene or animal welfare processes."

1 in 20 Australian Sheep exported to Kuwait are processed at these facilities. They are herded into pens, commonly dragged out of the pens and slaughtered in front of the other sheep.

Of the two facilities targeted for improvement, pre-stunning was not recommended or implemented. The improvements really involved the implementation of improved lairage and penning facilities and the construction of slaughter tables.

Improvements to the second abattoir involved implementing one system for the processing of Australian Sheep. The traditional method processes and systems were left in place, presumably for local animals. Given the clearly expressed view of local operators and slaughtermen that the traditional method resulted in faster processing rates, there are no guarantees nor is there any regulatory measures in place to ensure Australian sheep are not processed through this traditional method, which is still available at this abattoir.

Significant animal welfare issues exist in the live export trade to the Middle East. This submission only documents issues that MLA, LiveCorp and the Australian Government have assessed or have been made aware of.

It is inexplicable why the trade to Indonesia was suspended yet the trade to the Middle East was not. There is significant evidence on the record that similar and worse practices are currently occurring with the full knowledge of MLA, LiveCorp and DAFF.

4. Conclusion

If there was sufficient evidence to halt the live export trade on animal welfare grounds in 1985, little has changed in 26 years. In that time, over 250 million head of Australian livestock have been exported to destinations where it was fully known by the industry and Government that a cruel, brutal death awaited them. No matter how many times "in your face" evidence of unacceptable practices has been presented to Governments of all political shades, the typical response has been glib minimizations, outright denials and promises for the future.

This submission has not touched on mortality rates during the voyage, a key issue in the 1985 Senate Inquiry. We feel the issue will be fully explored and detailed in other submissions and we support the points that will be made. Typically, the industry expresses the line “less than 1% of sheep exported die during the voyage”. This is a dismissive way of minimizing the fact that in excess of 3 million Australian sheep have died due to sea transportation.

It is a matter of national shame that in 2008 a West Australian prosecution over animal welfare breaches relating to the sea voyage was made out but dismissed because of over-riding federal provisions.

The repetitive claim from the industry is that the only way for animal welfare to improve in these importing countries is for Australia to remain in the trade and make progressive changes.

What is rarely appreciated is the “Export first – make animal welfare improvements later” position is a major reason why little or no tangible progress has been made. It gives tacit approval to poor animal welfare outcomes and clearly elevates the continuity of the trade to being the paramount consideration. Galvanized by this importance, the live export industry has made minimal efforts genuinely directed at improving animal welfare. On any objective assessment, the progress to date is an abject failure. Yet narcissistic expenditure on improving the domestic image of the trade has skyrocketed.

The outcome of any report in this Inquiry should be:

1. The live export trade will be generally phased out over three years by the issue of export permits that progressively decrease current numbers exported down to zero by the end of the last year of the period.
2. Any current destination where Australian livestock are exported to that does not broadly meet Australian standards of animal welfare (AS 4696) in relation to the handling and slaughter of livestock shall be the subject of an immediate suspension.
3. During this phasing out period, the live export industry will be required to meet all necessary expenditure on animal welfare measures to continue the trade.
4. Australian taxpayers will not be required to subsidize the live export trade any longer by paying for improvements to other nation's livestock industries.

2 Terms of Reference – Economic/Employment Issues

"2. Investigate and report on the domestic economic impact of the live export trade within Australia including:

a) Impact on regional and remote employment especially in northern Australia;

b) Impact and role of the industry on local livestock production and prices;

c) Impact on the processing of live stock within Australia.

3. Other related matters."

The Australian meat processing industry is a key regional employer directly employing around 31, 000 Australians. Around 60 to 65% of the meat processed in Australia is exported overseas, earning $5.4 billion per annum on average over the last ten years, 7 times more than the equivalent average earnings of the live export industry.

However since the early 1970s, 20 000 direct jobs in the Australian meat processing industry have disappeared. Many thousands more jobs that were supported by the industry have also disappeared with them.

The AMIEU presents its case for why the live export industry has been the dominant factor behind this demise.

The claim that the live export industry "complements" or services some different, otherwise unavailable "segment" of overseas markets is a fallacy. The live export industry has simply cannibalized livestock supply chains in Australia, transforming large regions (spanning several States and the Northern Territory) away from higher value adding economic activity to a lower one. The dominant factor driving this process has been overseas price signals heavily distorted by subsidies and blunt trade protectionist measures.

The combination of these distorted price signals and the live export industry's constrictive effect over supply chains have exerted a powerful pincer effect over Australian meat processors.

Studies have quantified the loss of GDP, household income and jobs due to the live export industry and lost value adding opportunities (Heilbron 2000, 2010). Another has quantified the positive effect if a phased transition were made from live exports to meat processing (ACIL Tasman 2009).

There are powerful animal welfare grounds to immediately cease sections of the live export industry and phase out other parts.

This aspect of the AMIEU submission presents an additional, distinct set of economic grounds for a three year phasing out of the live export trade. We press for such a finding in any report emerging from this Inquiry.

3 The Live Export Industry Claims – Employment and Livestock Prices

Key claims made by the live export industry come from two major sources:

- Hassall &Associates (2006) *"The Live Export Industry: Value, Outlook and Contribution to the Economy"* – An MLA/LiveCorp commissioned report delivered in July 2006; and
- Centre of International Economics (CIE 2010) *"The Contribution of the Australian Live Export Industry"*- an MLA/LiveCorp commissioned update to the above report delivered by Mr. Derek Quirke to the ABARE Outlook conference on 2 March 2011.

Key findings of the Hassall report (2006: 53) are:

> *"The live export industry has flow-on impacts to regional and national economies. The modeling carried out by the NIEIR estimated that during the past 5 years the live export industry contributed the following to the national economy:*
>
> - *$1.80 billion to gross domestic product annually;*
> - *12,924 jobs; and*
> - *Wages and salaries totalling $0.99 billion annually"*

It is not difficult to find repeated reference to these short points throughout the live export industry literature, websites and, quite often, repetition through various political figures, including successive Ministers for Agriculture of all political shades.

The modelling in the Hassall Report results in an average salary of more than $76,000 per employee whereas the ABS national input-output table for 2006-07 had $60,000 per full-time equivalent employee overall and considerably less for the agriculture sector. It is not difficult to demonstrate an initial eyebrow raising inconsistency in the estimates.

The Hassall report uses modelling carried out by NIEIR to measure flow-on impacts to regional and national economies. That modelling is not fully documented but it states a type 3 multiplier mode is used with inter-industry, consumption, investment responses and surplus economic capacity. This is not among the multipliers documented in ABS Catalogue 5246.0 *Information Paper Australian National Accounts Introduction to Input-Output Multipliers*.

The Hassall Report finally calculates that a closure of the live export trade would result in the GVP of Australia's sheep and beef cattle industries falling by approximately $550 million per annum. The report provides confusing estimates on exports, for example, figures of $1.1 billion, $1.8 billion and a net export figure of $482 million appear in chapter 9 while a figure of $ 830 million on an FOB basis appears in Chapter 10 (Conclusions). More recently the CIE (2010) update produced a lower impact of closure on GVP of $248 million in GVP terms.

Whilst these reports examine the flow-on benefits of the live trade, there are factors that have been omitted and assumptions which may be questionable. These are discussed below.

1. *Value chain estimates*

Various reports have examined the value chain for the live export market and provided estimates of the value added. The Hassall Report developed a value chain using case studies and discussions with industry players. It estimates the value added per head for live cattle at $30.00 per head whilst the estimate for sheep is $5.00 per head. These estimates are on a CIF basis which counts as Australia value-added ocean freight charges of foreign owned ships of around $5 and $1 per head respectively – this problem has been identified by ACIL Tasman (2009: 37) in relation to the sheep value chain. Even with these distortions removed, a value add estimate of around $25.00 per head in the case of cattle appears significantly higher than the $17.33 per head on a f.o.b. basis reached by a prior study (McArthur Agribusiness 2001: viii) based on discussions with industry players.

2. *Opportunity cost*

The studies of the value chain for the live export market do not adequately estimate the adverse impacts on the processing sector and the broader economy of the live exports not being processed (the opportunity costs). Rather studies of this kind assume as their starting point that meat produced overseas from Australian live animals and Australian meat exported do not compete.

Specifically, they miss the very key point that, if more of the cattle meat value chain is located in Australia, the greater the positive economic impact on GDP and employment in Australia. If the animals were processed instead of being exported live, even more jobs and value-added would be generated without necessarily having any adverse impacts on the value-added generated in livestock production. The jobs and value generated in livestock production are already taken into account in the flow-on impacts of processing.

To implicitly assume away competition, as studies of this kind do, allows them to ignore the significant trade barriers and subsidization which drives the live trade and prevents free market competition overseas from Australia's large, world leading and highly efficient meat industry producing premium FMD and BSE product (Heilbron 2000 and 2010, and ACIL Tasman 2008). Such mercantilism is contrary to the free trade policies which Australia has long advocated in the WTO and world economic and trade forums.

The SG Heilbron 2000 Report concluded that the live export trade could be costing Australia around $1.5 billion in lost GDP, around $270 million in household income and around 10,500 lost jobs. These estimates are for the processing of cattle exported live in one year, and are substantially larger than the estimates of value added generated by the live trade on an equivalent annual basis, as one would expect them to be. Conclusions reached by ACIL Tasman (2009) are similar; whatever the economic and employment contribution is of the live export industry in that State, there would be a 20% higher output if the livestock were processed domestically.

Attempts to first assert and calculate positive economic benefits of the live trade and then subsequently to consider opportunity costs only if the live industry is shut down on non-economic grounds (e.g. animal welfare considerations) is not an adequate response to addressing up front the deadweight costs to the Australian economy of trade protection and subsidization which drive the live trade.

The Hassall Report assesses the impact of cessation of both live sheep and live cattle using the GMI model developed by CIE on behalf of the MLA. The assessment distinguishes between the immediate impacts and subsequent adjustments. The subsequent adjustments section acknowledges there is a range of options.

The report acknowledges that the impact will vary depending on the time frame used and the extent to which the change is anticipated in the industry. Nevertheless, the modelling does not assess the price recovery phase and has only one price for each category of sheep and cattle rather than a range. As discussed below, the price falls appear excessively steep given the relatively small overall increases in supply.

The Hassall Report's modelling concludes that the losses to the Australian economy from the cessation of live trade are not offset by the increase in domestic processing because of the steep falls in average prices. This conclusion is reached on the basis of gross value of product rather than gross regional product. Specifically, it appears that the with/without comparison does not take account of multiplier impacts and, as discussed below, multipliers for processing are higher for processing than the rest of the industry chain.

In summary, the GMI modelling in the Hassall Report is based on very specific assumptions, a very short time frame and a very narrowly defined impact. Just as importantly, little detail is provided about the GMI model so it is difficult to assess its validity and accuracy. Any data error in one component of the model could have a pervasive effect on the overall results.

ACIL Tasman (ACIL 2009), by contrast, uses conventional input output analysis and compares its results with the earlier MLA 2007 report – "Assessing the value of the livestock export industry to regional Australia". The fact that the 2 reports estimate similar results and use gross regional product and employment as the basic metrics are reasons for more confidence in this methodology.

Some key points made by ACIL Tasman are:

- Processed sheep meat exports have a higher post farm gate gross value chain than live sheep exports.
- If the consumer is not willing to pay for the additional value added to the product by slaughtering and packaging, then there may be a decrease in demand and/or farmers will receive a lower price for their sheep. However, there appears to be considerable evidence that the Middle East consumer is willing to pay for meat processed in Australia.
- If significant substitution is achieved between live exports and processed meat, the costs of processing will fall as greater economies of scale are achieved.
- From a comparison of the multipliers in Table 9 (Western Australian sheep industry multipliers) and Table 11 (Western Australian meat and meat products processing industry multipliers), it can be seen that a decision to add value to the sheep by slaughtering them in Western Australian abattoirs creates considerably higher multiplier

effects for gross state product than the farm-gate sheep industry and, by implication, the live sheep exports.

In summary, the ACIL Tasman report taking a broader, more transparent approach to measuring economic impact, concludes that the additional sheep meat to be processed (replacing the live trade) could be absorbed by lucrative and expanding export markets. It argues that lamb and mutton exports from Western Australia are currently constrained by the number of sheep they are able to purchase for processing. This is the opposite conclusion to the Hassall Report.

3. *Stock price assumptions*

It is clear that the analysis by CIE relies heavily on the GMI model that it developed for the MLA. This model, used by CIE and Hassall, places considerable emphasis on the assumption that the increase in meat production will lead to a substantial decrease in prices, especially for exports. The CIE for example says that Australian beef production will increase by 5% if the live trade ceased, and then that export prices would fall (although the presentation material does not say by how much), leading to a 4-7% decrease in cattle prices. They effectively assume that the Australian beef export industry is not a price taker in global meat markets.

The estimates for lower beef prices, and hence for lower cattle prices, seem highly exaggerated – if half of the increased beef production was exported (i.e. around 2.5% of extra exports) it seems unlikely in the extreme that this would lead to a substantial fall in cattle prices of the magnitude estimated. It suggests that the simple price elasticity of cattle ranges from .63 to .35 which seems lower than would be expected except in the very short run when the market over-reacts to any announcement effect. It means that a very small change in quantity has a doubling proportional impact on prices which seems unlikely in the medium to longer term. On this basis it would make sense to reduce beef exports to increase the gross value of production and value added. The CIE presentation does not indicate what the export price elasticity used is nor how it was derived. The analysis also appears to assume that even if there is a decrease in meat export prices there is no subsequent increase in demand by foreign markets.

4. Modelling methodology

Estimating economic impact is generally undertaken by either input-output analysis or general equilibrium analysis. When based on the GRIT methodology, the former has the advantage of simplicity and robustness and the inclusion of detailed superior commercial data provides an accurate representation of the structure of the industry in question and its linkages to the wider economy. This is the approach used in the SG Heilbron 2010 Report.

By contrast CGE modelling as used in the GMI and NIEIR models is generally not transparent and does not appear to include any superior detailed industry data. Whilst CGE modelling is more elaborate than input-output analysis, it is generally based on very broad assumptions about the structure and linkages of the meat industry. CGE modelling relies on a large number of parameters and assumptions, and of course the larger the number the larger the risk of errors in seeking to simulate a complex and dynamic market, such as that for cattle and beef. One such area of concern is that the modelling in the Hassall Report results in an average salary of more than $76,000 per employee whereas the ABS national input-output table for 2006-07 had $60,000 per full-time equivalent employee overall and considerably less for the agriculture sector.

The analysis leading to any forecast for cattle and sheep prices are subject to major uncertainties. Movements in livestock and meat prices are subject to a wide variety of factors. One presumes that the CIE modelling of the impact of cessation of live exports has been undertaken on a with/without basis with all factors other than a change in livestock supply being held constant.

Some key stated assumptions behind the CIE analysis which leads to the model's simulations of the worst-case outcome are discussed above. As pointed out above, some of the other key drivers are not transparent or supported by commercial evidence – such as the assumptions on export prices. Moreover it is unlikely that any productivity gains from the increased throughput and capacity utilization in processing have been taken into account, nor the huge growth potential for Australia, the world's largest premium FMD and BSE free meat exporter, from the unprecedented development of the Asian region presently underway.

5. Conclusion

Studies conducted on behalf of the live export industry have as their foundation a premise that the live export trade operates in a different market, or a different segment of the market to the meat processing industry. Other externalities – a lack of refrigeration in overseas destinations- are often cited as preventing a trade in chilled or frozen meat. From this starting point, it is easy to ignore the lost GDP, household income and employment that has occurred as a result of the live export trade, compared to processing the livestock in Australia.

From a base that there is no genuine "substitution" between live exports and chilled and frozen meat, it is also convenient to then predict the "worst case scenario" of falling stock prices and thereafter ignore the substantial offsetting benefits that would accrue if the livestock were processed in Australia. Even so, many of the predictions on stock price implications lack any transparency and have questionable assumptions underpinning them.

As we shall see in the next section, many of the alleged drivers of the live trade underpinning the major premise in these studies are erroneous or grossly over-stated. The significant genuine drivers such as subsidies and trade protection are all too often brushed over.

4 Live Export – Drivers of the Trade

For such a significant live export trade to exist in Australia there must be a market based demand, potentially coupled with associated externalities, which underpin it. An understanding of these drivers is critical to informed policy responses.

In the case of the live export trade, the prominence of the true drivers has been largely subverted under a multitude of alleged drivers. The credibility of many of these alleged drivers does not survive even superficial scrutiny.

Of significant concern is that these alleged drivers have cascaded through all layers of the policy debate and have largely informed and influenced Governmental responses. Indeed, the live export industry "lines" have been all too often slavishly repeated by a range of governments of all political shades.

In turn, we examine each of the claims.

1. *The live export trade doesn't compete with the meat processing industry; it "complements" it.*

Of all of the claims made over a number of years, this must surely be the most egregious. The assertion is that the live export trade and the chilled meat trade do not compete as both service different "segments" of the market.

Even the economic analysts engaged by the MLA and LiveCorp do not support this theory (Hassall 2006: 34):

> *"Sheepmeat from Australia and New Zealand, especially chilled lamb, compete at the margin with meat derived from sheep imported from Australia."*

The authors are compelled to this observation by the fact that in these Middle Eastern markets, substantial quantities of chilled and frozen meat is exported in conjunction with live animals. Both end up consumed by the end user as processed meat.

There is no better practical illustration of end point competition than the promotional video "Why the Live Sheep Trade and Chilled Meat Trade are so Important". This is a video produced by MLA and LiveCorp as part of their "Live Export Truth" channel on You Tube[6]. The short description of the video urges viewers to *"Find out what is driving demand for live sheep and cattle as well as chilled red meat products in our overseas markets, and how the two trades complement each other."*

Part of the video pans over the outside of what westerners would immediately recognize as a supermarket operation. We are then told by a voice over:

> *"Australian meat grown and processed in Australia is making its mark in the growing Middle Eastern food retailing sector. From niche outlets like Gourmet Egypt which sells only Australian meat to the massive hypermarkets of Bahrain and the Emirates Australian beef and lamb has a very strong presence in probably the most dynamic region for in food retailing in the world.*
>
> *Australia's ability to supply Halal product underpins all its meat exports to the region."*

The scene then cuts to the inside of a supermarket, in a section with an extensive refrigerated cabinet display of processed meats. Mr. Lachlan Bowtell, MLA Regional Manager for the Middle East and North Africa, then speaks to the audience in front of a cabinet display of processed meat:

[6] http://www.youtube.com/user/LivestockExportTruth#p/u/6/ZBOJkDXzOPQ

"So we are seeing some changes and modernizing of retail and the Middle East is just overtaking the world from the way they are moving forward with the pace the speed they're gravitating towards new concepts and new ideas and taking the best of the world and putting it into their supermarkets. We have a wide range of product available here we have beef and lamb from India and Pakistan. <u>We have local product. We have Australian Beef</u>, New Zealand Beef, Brazilian Beef lamb from all around the world."

(emphasis added)

There is also increasing evidence of "side by side" end competition in Indonesia, statistically Australia's most significant live export market for cattle. LiveCorp (2010: 14) report of conducting marketing activities in Indonesia in 88 "wet markets" to promote, inter alia, the nutritional value and quality of beef derived from locally slaughtered imported Australian cattle. Significantly, further promotional activities involved the following:

"Weekly beef promotions were also held in leading retail outlets for chilled beef processed in Indonesia from Australian cattle. In-store demonstrations were held cooperatively with two Indonesian brands, Santori and Sterling, again highlighting beef's nutritional benefits. Sixty-five retail promotions were held in 43 retail outlets and included cooking demonstrations and point-of-sale and support materials such as cookbooks."

Whilst chilled and frozen beef exports to Indonesia were small by comparison to other markets (USA, Japan, Korea), the growth prior to 2010 was encouraging:

"Indonesia is also a significant market for Australian beef exports. Indonesia was the fifth largest market by volume for Australian fresh or chilled beef in 2008-09 and the fourth biggest market for frozen beef. Although the volumes exported are much smaller than those going to the massive beef markets of Japan and the USA, the growth in exports to Indonesia has been much more rapid. Over the previous 5 years exports of fresh or chilled beef grew 260% and frozen beef 442%."

(Heilbron: 2010: 15-16)

Thus far we have only examined end product competition. The evidence is sufficient in itself to dispel myths about the two trades "complementing" each other.

It must further be considered however that competition can exist through all parts of the production chain. Historically, there have been numerous claims that the live export trade keeps stock prices higher and gives farmers better gate returns. The most recent and prominent example of this comes from an "update" commissioned by MLA and Livecorp, compiled by the Centre for International Economics. The claim is that if the live export trade ceased immediately the price of livestock in Australia would fall. As outlined above, we do not concede the correctness of the claim. The important point to note however is that the claim is brought forward from the premise that competition exists in a spot market between purchasers for live export stock and purchasers for processing – resulting in (allegedly) better prices for cattle producers. The premise that such competition exists is undeniably correct. Most recently, in relation to the sheep market, MLA (2011: 23) expressed it in these terms:

> *"Competition for sheep between the processing and live trades will intensify given the limited numbers that will be available to meet demand"*

Heilbron and Larkin (2000: 45-48) pointed out over a decade ago what a fallacy it was to consider the live trade and chilled processed meat trade as being "segmented" into different markets, meaning there is no competition between the two. The evidence of rapidly increasing "side by side" end product competition and the competition for stock at the threshold makes the argument plainly untenable.

2. *A lack of refrigeration in importing countries is a substantial driver for the live export trade.*

In an effort to support the notion of an overseas "segmented" market for beef, many point to the lack of refrigeration in importing countries as an externality making trade in the chilled and frozen processed meat impracticable.

As often as this proposition is repeated, it is never verified with any evidence, let alone acceptable evidence. The proponents of the argument appear to believe the proposition is "self evident".

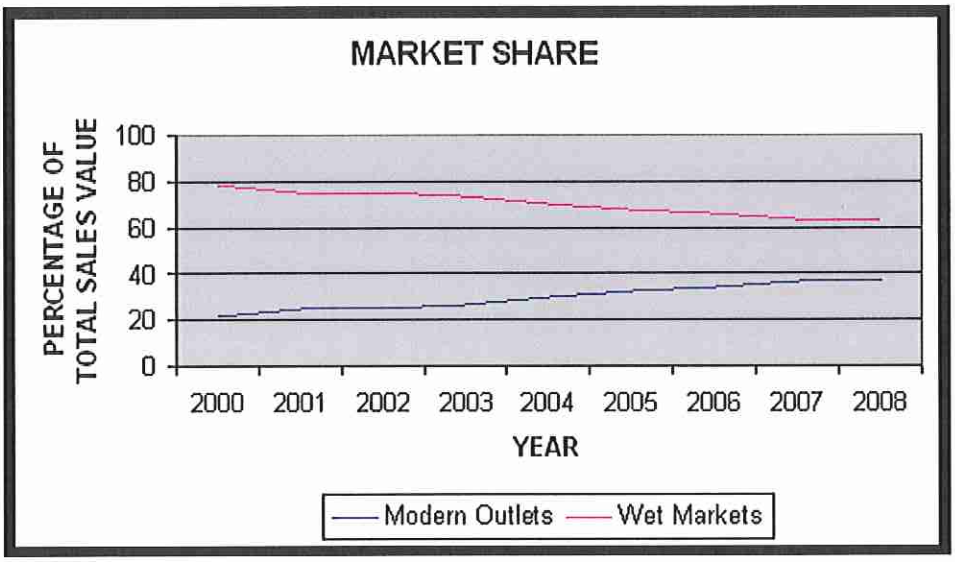
The claim has little or no application to the Middle East. The volume of chilled and frozen meat exported to these markets strongly suggests that refrigeration, or lack thereof, is a very minor issue. Many of the oil "rich" (but agriculture and food production "poor") countries in the Middle East import huge volumes of frozen foods each year, quite apart from processed meats.

This aspect of the argument appears to be accepted by ABARE (2008: 21):

> *"In the Middle East, the absence of a cold chain is not as important an issue as it is in south east Asia. On average, per person incomes are higher because of the region's extensive oil resources (figure p). Similarly, the food distribution system is well developed, as is the general capacity of individuals to refrigerate fresh food."*

This only leaves South East Asia. The "refrigeration" argument is rapidly becoming an irrelevancy in respect to Indonesia, who typically take up to 80% of the total live cattle exports from Australia. The following graph prepared by the United States Department of Agriculture (USDA 2010: 4) documents a trend that is becoming widely known about Indonesia: western style supermarkets and hypermarkets are replacing traditional "wet markets" at an exponential rate.

Market Share of Modern Outlets and Traditional Markets – Indonesia



Source: AC Nielsen
Note: Modern Outlet: hypermarket, supermarket, mini-market
Traditional market: wet market, independent grocery store

On current trends, the overwhelming share of the retail market in Indonesia will accrue to modern outlets within three years (90%+). Similar patterns are present in other South East Asian markets.

Several argue that consumers in these countries without refrigeration are driven to "daily" shopping. The argument is never developed beyond providing this trite observation. These consumers are rapidly being presented with a choice for their daily needs: high quality, hygienic and (at least in the case of Australian beef) quality assured chilled beef or beef from a "wet market". Whichever source is chosen, the consumer still needs to use the product that day. As we have seen above, the option of using a wet market is also rapidly evaporating as a mainstream choice. The United States Department of Agriculture report referred to above states that for a range of reasons, Indonesian consumers “increasingly prefer for shopping at supermarket and modern outlets rather than at traditional wet markets” (USDA 2010: 10).

It is also significant to note that the growth area in chilled and frozen beef has been outside of the traditional markets of Japan, the United States and Korea. The rapid growth over the last five year period has been in the South East Asian markets and Russia. This pattern is consistent with rising incomes in these countries and associated changes in food consumption preferences. As ABARES (2011: 62) have put it:

> *"Over the five years to 2009–10, the share of Australian beef exports to developing markets increased from 8 per cent to almost 24 per cent of total exports. This change reflects higher income growth and an associated increase in demand for beef in these markets, compared with Australia's major OECD beef markets of Japan, the United States and the Republic of Korea."*

If the right analysis is going to be made and appropriate policy responses put in place, slavishly repeating weary old lines like “we can’t possibly export chilled meat because there is no refrigeration in that country – this is why we have to live export” will set Australia back considerably; moreover the opportunity to capitalize on changes in consumer patterns in developing countries, particularly South East Asia, will be squandered.

3. Cultural and Religious Drivers

We have searched extensively throughout the live export industry literature. This claim is commonly made. As many times as it has been made, it has been unaccompanied by any evidential base. It appears to be another “self evident” proposition advanced as an explanation for the demand drivers for the live export trade.

The only work where we have struck upon a reference seeking to fortify the claim is ABARE (2008: 14):

"The Middle East is an oil rich region whose population enjoys a high standard of living. Demand for live animals in the Middle East stems from religious and cultural preferences (Shiell 2003), in contrast with many south east Asian countries where it is a consequence of the lack of refrigeration."

"Shiell 2003" is a presentation delivered to ABARE by Mr. Kevin Shiell. At that time, Mr. Shiell was the CEO of LiveCorp, the live export industry peak industry body.

It appears that the best evidence that ABARE were able to find in relation to a claim made by the live export industry was to cite comments made by one of the key players in the live export industry. The claim was literally pulled up by the "boot straps" by the source of the claim.

In the case of the live sheep trade to the Middle East, there is statistical support for the proposition that an increase in demand occurs around the period of Ramadan to Eid al Adha. However this does not account for the all year round nature of the trade. At its highest, demand for religious slaughter might account for 25% - 30% of the total amount of live sheep exports to the Middle East. It also accounts for around 80% of the worst instances of animal cruelty.

We also encounter statements such as "Muslims prefer fresh warm meat" throughout the literature. Again, little is offered by way of support for the proposition.

In 1985, this assertion was refuted by the Australian Federation of Islamic Councils:

"13.12 The Australian Federation of Islamic Councils (AFIC) stated that the demand for hot meat was not based on any religious principles"

(Senate 1985: 155)

As many times as this claim has been repeated since this time, it has been unsupported by any evidence from a credible Islamic source.

To speak of market "preference" in the Middle East is a fundamental error. As we shall see below, subsidies seriously distort prices in this market – a huge factor in determining genuine market "preference" for one product over the other. There are also substantial trade barriers against the export of chilled and frozen meat to Indonesia.

To gain even a basic appreciation of Middle Eastern market preference, one has to appreciate that Australia exports huge volumes of fresh and frozen sheep meats in conjunction with the live trade. A point often missed is the actual meat derived from these live animals is far less than the live weight. Yet on countless occasions, we encounter comparisons based on the f.o.b. tonnage of live shipments being compared to the f.o.b. tonnage of sheep meat exports. The comparison is distorted accordingly.

The significant effect of price and subsidies on preference is demonstrated in the following passage (ABARE 2009: 467):

> *"Live sheep export prices are expected to remain high throughout 2009-10. This reflects increased competition between the sheep meat and live export industries in Australia. The relatively high prices for Australian sheep may lead to substitution in some countries away from Australian live imports. Such substitution is expected to occur mainly in unsubsidized markets in Saudi Arabia rather than in other Middle Eastern markets such as Kuwait and the United Arab Emirates where the live sheep trade has official government support."*

4. *Subsidies – Everyone knows about it, few want to talk about it, much less quantify the effect.*

According to ACIL Tasman (2009: 13):

> *"Due to the lack of publicly available information, it is difficult to quantify the level of subsidies given to live sheep importers"*

This is the least researched or publicized aspect of the live trade, which is a source of major concern.

From the best evidence, ACIL Tasman (2009: 13-15) compile an array of subsidies that are currently in place in the Middle East in relation to the live sheep trade. It should be noted that these were always in place since the trade's inception. The 1985 Senate Inquiry detailed extensive subsidization of the live sheep trade in the Middle East. It was noted that in some countries the fresh meat from imported live sheep was cheaper than refrigerated sheep meat "even though the real cost may be higher" (Senate 1985: 156-157).

Heilbron has also identified subsidies, direct and indirect, enjoyed by cattle importers and feed lots in Indonesia (Heilbron 2010). The effect of these market distortions is also exacerbated by the blunt protectionist measures imposed by the Indonesian government. Indonesia imposes virtually prohibitive conditions on importing chilled processed meat. There is a 5% tariff on such product, whilst live imports of cattle remain tariff free. Moreover, highly restrictive import quotas are set (revised up to 90 000 t from 50 000 t this year).

The most surreptitious protective measure however remains the outright ban on importing offal, which includes trimmings used for the "in demand" meatball market in Indonesia. Offal accounts for around 14% of the revenue that a meat processor obtains for processing an animal. It is the so called "fifth quarter". Closing the market for such product forces a processor to seriously question whether an animal should be processed at all for the Indonesia market. If an alternative market cannot be found for the offal it is often not commercially viable to even contemplate.

The dangers in subsidies are outlined by ACIL Tasman (2009: 15):

> *"Subsidies increase the consumption of one product over another, increasing demand above what it would be if the consumer were confronted with the full cost of the product. Suppliers benefit from this increase in demand and it can lead to an increase in gross national product (GNP).*
>
> *However, the additional production diverts resources from other uses. This is called a distortion in the market, as it is not the result of the normal operation of a competitive market.*
>
> *If the resources are diverted to a higher value use, or the volume of additional demand is such that even if resources are diverted from other higher value uses, the total economic gain is higher, the country supplying the product benefits from the subsidy.*
>
> *However, if the subsidy diverts resources to a lower value use in the supplying country, and the volume of additional demand is insufficient to offset this reduction in economic activity, then the supplying country as a whole is economically worse off. However, some sectors of the economy producing the subsidised product will benefit from the subsidy. There is also a risk that if the subsidy is reduced or withdrawn, there is likely to be a need to adjust production in the supplying country. If the supplying country has altered production by a large extent, that is a large proportion of a sector of the economy is dedicated to producing the subsidised product, the adjustments could take some time to be made and could be costly."*

No analysis or investigation of the kind described above has ever been conducted in Australia. Price signals distorted by subsidies have been a key driver in changing the face of livestock industries in Australia. Large tracts of the sheep industry in Western Australia were structured towards the live trade and away from meat processing. Similar developments occurred in Northern Australia in relation to cattle. To date, no player in the industry or Government have truly calculated the economic rent, if any, for these wholesale shifts. The move, prima facie, eliminated the undoubted higher "value add", output and employment levels associated with meat processing as an addition to the value chain.

Not one of the studies generated by the live export industry has addressed this point. Despite constant rhetoric by successive Australian governments of all political shades on the WTO and other world stages about the importance of "free trade", this anathema to such concepts not only appears to be tolerated – successive governments have indeed vociferously defended and promoted the live sheep trade.

The negative effects and the lackadaisical attitude may be demonstrated by a short but very recent situation. MLA published the "Australian Sheep Industry Projections" in February 2011. Live sheep exports are forecast to fall to 2.8 million head in 2011, a 33% decline since 2008. Suggested explanations are price pressures arising from ever increasing $AUD and tight domestic supplies (particularly of whethers) due to changes in herd composition (MLA 2011: 23). Despite these price pressures, it is said:

> *"In markets like Bahrain, Qatar and Kuwait, consumers have been at least partially protected from the impact of record import prices by government subsidies which has maintained volumes to the region – though demand in Bahrain did fall significantly in 2010."*

Earlier on in the report, it is noted that demand for Australian domestically processed lamb was exceptionally strong (MLA 2011: 17):

> *"The potential diamond among all the jewels in the current sheep meat export environment is the Middle East. Exports of Australian lamb to this region have increased by 160% in the past five years. The market has been able to absorb the record prices (in part due to the high A$) and also pull product away from other potential markets. This hunger for lamb by the Middle East in 2010 saw this region move up to become Australia's number one export market, taking 36,700 tonnes swt"*

Similar glowing expectations are said about Australian domestically processed mutton (MLA 2011: 21):

> *"Australian mutton exports to the Middle East in 2011 are forecast to increase 15% year-on-year, to 49,400 tonnes swt, with the main determinants continued amazing demand for mutton along with an expected improvement in Australian sheep supply."*

Accordingly, a fair summary of the situation is as follows:

- Strong Middle East demand for Australian domestically processed lamb and mutton; and

- Weak and falling demand for live sheep shielded to an unspecified extent by subsidies.

The economic rent paid by Australia as a result of the subsidies is a loss of higher value adding, GDP returns and employment due to this loss of this higher end of the market. Precise details of the subsidies would be needed to quantify the loss. It is to be noted that the subsided markets identified – Kuwait, Bahrain and Qatar- are projected to take 65% of total live exported sheep in 2011. As late as 2009, literature from ABARE also suggested that the United Arab Emirates were also a subsidized live sheep market (2009: 467).

We have been unable to detect any evidence of subsidies on imported processed meat. To the contrary, a 5% tariff is applied by Middle Eastern countries on processed meat imports.

Spillover effects also occur due to the subsidies. The situation is further exacerbated, for as MLA note (2011: 23):

> *"Competition for sheep between the processing and live trades will intensify given the limited numbers that will be available to meet demand"*

Thus the artificial demand created by the subsidies will exclude processors at the margin domestically when competing for the stock – a further opportunity loss.

The situation attracted no comment from MLA. Perhaps it would take an economist unencumbered by the "fawning" culture over the live export industry to recognize the real loss created by subsidies and to comment about their effect.

Food subsidies have been a significant issue in the Middle East. They are closely aligned to notions of "food security", a major issue in the region. Some commentators suggest they are also used as a political means to quell rioting or other forms of discontent. In Indonesia, we find a variation on the theme in expressed desires for "self sufficiency".

Whatever the precise motivations are behind the use of subsidies and trade protection are, they are an anathema to the rhetoric of "free trade" voiced by Australian governments of all political shades in WTO and other international economic forums. They have also been allowed to largely shape wholesale changes in focus of livestock production in Australia – away from a higher value add chain involving processing.

Genuine market forces are not driving price signals to live exporters in Australia. Central government controlled policies are.

It is a matter of significant concern that no detailed study has ever been conducted into the extent of these subsidies and the impact on the livestock and meat processing industry in Australia. Political experience tells us that subsidies can collapse overnight. The impact would potentially be as great as the recurrent suspensions in the live trade that occur due to animal welfare concerns.

Moreover, no detailed, evidence based assessment has been conducted into what the deadweight or economic rent is to Australia as a result of these subsidies. The loss of higher GDP, higher output, higher domestic employment, investment and productivity gains through processing higher volumes is a serious issue. It beggars belief that Government or MLA have not quantified whether these losses are offset by the gains made through subsidies.

The inference that "no one wants to know" is clearly available in the circumstances.

5. Conclusion

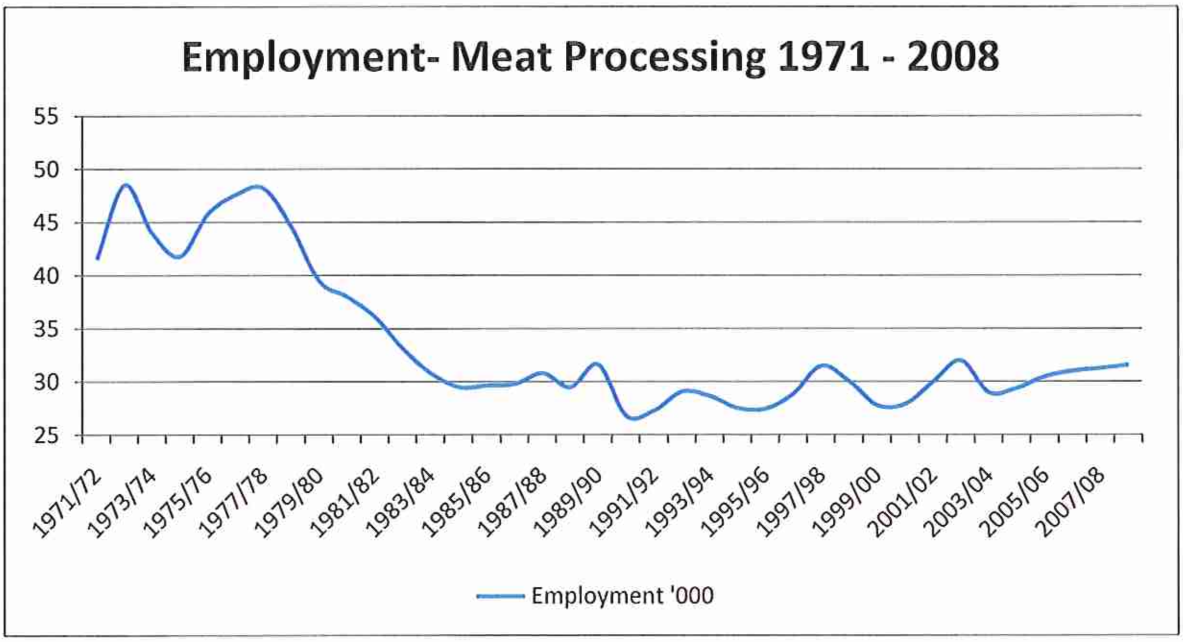
On any objective analysis, subsidies and trade protection are the major drivers of the live export trade. To a lesser extent in the case of sheep, religious factors account for a proportion – bearing in mind that this period between Ramadan to Eid al Adha is most commonly associated with the worst examples of animal cruelty.

The notion that the live export trade services a distinct "segment" of the market otherwise unavailable to the chilled and frozen meat trade is a fallacy. A major externality underpinning it – a lack of refrigeration – has become by and large an irrelevancy in the case of the Middle East and of rapidly diminishing importance in South East Asia.

5 Meat Processing – A Key Regional Employer

1. Overall Employment

According to the most recent statistics, meat processing in Australia accounts for 31 584 direct jobs. The historical trend however is of a significant decline, as the following table shows:



Source: ABS Cat 8221.0, Cat 8159.0, ABS Manufacturing Survey[7].

Recent closures and permanent shift reductions during the period 2009/10 suggest the national figure could be hovering around the 30 000 mark. Permanent closures during the period in NSW include Southern Meats at Goulburn (150 jobs) and Burrangong Meat Processors at Young

[7] No Manufacturing survey was conducted in 1985. The data in this table for the relevant period has been averaged for the purposes of continuity.

(300 jobs). In Queensland, the Killarney and Pittsworth abattoirs closed in 2010 (150 jobs). Permanent shift reductions at the JBS Australia Pty Ltd sites at Dinmore and Townsville in Queensland also saw another 600 direct jobs lost. The slackening of international and domestic demand due to the GEC also saw several lay-offs of excess staff across the board, with several plants also operating at less than half capacity for extended periods.

There are no reliable data sources to ascertain the precise amount of direct jobs the live export industry generates. The figure of 12 924 FTE employment supported by the industry is not a statement of the amount of direct jobs (Hassall 2006). As noted previously, the average salary per person of $76 000 does not reconcile with the ABS national input-output table for 2006-07 at $60,000 per full-time equivalent employee overall and considerably less for the agriculture sector. Moreover, the figures and multipliers used appear incongruent with a subsequent study conducted by the industry (Clarke Morrison Yates 2007).

There was also a jump of approximately 4000 jobs as between a 1999 estimate compiled by Hassall & Associates and the 2006 figures (9080 FTE vs 12 924 FTE). The explanation proffered for this 42% increase over 7 years was as follows:

> *"In a similar study in 1999, it was estimated that the live export industry generated 9,080 jobs in the economy (Hassall & Associates 2000). The main reason for the additional 4,000 jobs is structural changes in the economy since 1999, such as increasing import penetration and changing capacity utilisation rates for agriculture and the broader economy. These changes have led to higher multiplier values associated with economic activity generated by live exports. The industry has also grown in value since 1999. This has been due in part to the establishment of the dairy cattle live export market. <u>However, the majority of the growth in value has been based on increased export numbers during the early part of the decade for sheep and cattle and, since 2001, an increase in the revenue per head, particularly for live sheep exports.</u>*
>
> (Hassall 2006: executive summary) (emphasis added)

The figures do not bear this contention out. For apart from two to three high water mark years in 2000 – 2003, in the period 2003 – 2006 the industry quickly reverted back to levels below its 1999 standing:

Year	Number of Cattle live exported '000	Number of Sheep live exported '000	Gross value $ m
1999/00	845 700	4 858 600	740
2000/01	845 800	5 935 900	740
2001/02	797 000	6 443 200	918
2002/03	976 700	5 843 100	977
2003/04	581 300	3 842 700	584
2004/05	573 700	3 233 200	581
2005/06	548 800	4 247 600	649

There are good grounds to conclude the Hassall estimates are based around snatches of the industries performance at its zenith. There is a high degree of likelihood that in the years from 2003 onwards, the actual figure of total FTE jobs supported by the industry is closer to the 1999 estimates of 9080 FTE, embellished as that figure is by unexplained, arcane modeling and multipliers. There is a good case for the amount of direct jobs in the live export industry actually being around the 3000 mark, as suggested by Heilbron (2000).

2. Geographic Distribution

Employment in the meat processing industry is heavily dominated by a regional base, as demonstrated by the following table surveying those processors with more than 1% of the total production of red meat in Australia[8]:

[8] The source for these figures was the last conducted "Top 25 red meat processors" in Australia, conducted by the MLA in 2007. Significant mergers have occurred since that time (eg. Teys/Cargill, JBS/Tasman Group) and data has been adjusted accordingly.

Company	Percentage of National Production	Metropolitan Plants/employees	Regional Plants/employees
JBS Australia	22.5%	Dinmore, Qld - 1950 Brooklyn, Vic- 960	Townsville, Qld- 600 Beef City, Qld- 940 Rockhampton, Qld – 550 Riverina, NSW- 450 Cobram, Vic- 220 Bordertown, SA- 400 King Island, Tas- 105 Devonport, Tas- 150
Teys/Cargill	17.3%	Beenleigh, Qld- 800	Rockhampton, Qld- 900 Biloela, Qld- 400 Naracoorte, SA- 300 Tamworth, NSW- 400 Wagga Wagga, NSW- 700
T & R Pastoral	7.3%		Wallangarra, Qld- 100 Tamworth, NSW- 400 Murray Bridge, SA- 600 Lobethal, SA- 200
Nippon Meat Packers	6%		Oakey, Qld- 700 Mackay, Qld- 300 Wingham, NSW- 450
Fletcher International Exports	3%		Dubbo, NSW- 750 Albany, WA- 600
Australian Country Choice	2.1%	Cannon Hill, Qld- 950	
H.W.Greenham & Sons	2%		Tongala, Vic- 280 Smithton, Tas- 150
Kilcoy Pastoral Co	1.9%		Kilcoy, Qld- 550
MC Herd	1.6%		Corio, Vic- 200
Harvey Beef	1.5%		Harvey, WA- 600
Stanbroke Beef	1.32%		Grantham, Qld- 300
Primo Australia – Scone	1.22%		Scone, NSW- 360
CRF Colac	1.19%		Colac, Vic- 380
V & V Walsh	1.19%		Bunbury, WA- 300
Northern Co-Op	1.05%		Casino, NSW- 750

MLA[9] has put the geographical dispersion of meat processing plants in the following terms:

Population of locality	Qld	NSW	Vic	WA	SA	Tas	Total
0 – 10 000	21	6	3	3	8	2	43
10 001 – 20 000	11	4	1	6	3	1	26
20 001 – 50 000	15	11	20	5	2	1	44
50 001 and above	14	4	11	0	0	0	29

On current trends and taking into account numerous other smaller operations, in excess of 80% of the direct jobs in meat processing in Australia are regionally based. In many instances, a local meat processing facility is the major employer in a regional town or city and is critical to the economic sustainability of town, city or region.

3. Contribution to Export Earnings

Typically, between 60 to 65% of the processed beef and sheep meat produced in Australia will be exported.

The live export industry frequently describes itself as a "billion dollar" industry. On the few occasions in the last 10 years it has earned a billion dollars in export revenue, it is only because of the addition of the value of live goat exports. In comparing "like with like", it can be seen that the ten year average export earnings of the processed beef and sheep meat industry is $5.371 billion. In contrast, the ten year average export earnings in live cattle and sheep was $770.8 million.

[9] MLA Submission, Productivity Commission Inquiry into Rural Research and Development Corporations, Table 2.1. Local government boundaries were used for the population bands.

Year	Beef & Veal Exports $ m	Mutton & Lamb Exports $ m	Combined Total $ m	Live Cattle $ m	Live Sheep $ m	Combined Total $ m
2000/01	4 007	924	4931	482	258	740
2001/02	4189	1116	5305	526	392	918
2002/03	3756	900	4656	569	408	977
2003/04	3793	1015	4808	318	266	584
2004/05	4584	1119	5703	374	207	581
2005/06	4272	1199	5471	358	291	649
2006/07	4634	1206	5840	437	289	726
2007/08	4190	1246	5436	451	286	737
2008/09	4857	1407	6264	559	339	898
2009/10	3953	1349	5302	601	297	898
Ten Year Average	**4223.5**	**1148.1**	**5371.6**	**467.5**	**303.3**	**770.8**

Source: ABARES *Australian Commodity Statistics*

Processed beef and sheep meat exports have consistently out-earnt live sheep and cattle exports at the rate of 7 to 1. Meat processing is also Queensland's largest manufacturing industry (Heilbron 2010) and second only behind coal in that State in terms of export earnings.

4. Conclusion

Meat processing in Australia is a key regional employer. In all likelihood, direct employment in meat processing outstrips direct employment in the live export sector by around 10 to 1. Up to 65% of meat produced from livestock in Australia is exported overseas, consistently out-earning the live export trade at the rate of 7 to 1.

One would think that significant attention would be directed from a government level to maintaining and potentially enhancing this significant industry. Yet practical experience dictates otherwise. A succession of governmental and industry figures have "fawned" over the trade for its entire existence, all too often slavishly repeating the key lines advanced by the industry.

6 The Cannibalistic Nature of the Live Export Trade

As we have seen above, there has been a net loss of over 20 000 direct jobs in the meat processing industry since the early 1970's. The total amount of lost direct jobs and jobs supported by the industry is a matter of conjecture; figures well in excess of 40 000 are not fanciful.

Domestic annual cattle slaughter rates have declined from highs of 13 million in 1977-78 to consistently stagnant levels around the 8.5 million mark throughout the 1990's onwards, with just 7.4 million in the calendar year 2010.

Sheep and lamb slaughtering have declined from all time highs around the 40 million mark in the early 1970s to consistent levels around the 30 million mark from the late 1970s to date. Some suggested explanations for the inordinate loss of employment in the industry include the industry rationalization that occurred during the 1990s. Rationalization however was about achieving the same outputs through fewer plants; thereby decreasing overall unit costs by the efficiencies achieved by improved economies of scale and capital returns. Given the labour intensive nature of the industry, the impact of rationalization on overall employment levels has been negligible or non-existent. The other major problem with the hypothesis is that the most dramatic falls in employment in the industry occurred well before the process of rationalization occurred.

Suggestions that the live export trade may be responsible for significant job losses in the meat processing industry are often met with derisive responses: the live export trade operates in a different "sector" of the market that the meat processing sector can't, the stock produced by the live export industry isn't suitable for domestic slaughter, live export is an "addition" or "enhancement" to the industry as opposed to being an internal consumer in the livestock supply chain.

We have dealt with some of these issues above. The notion that the live export industry is an "addition" to the overall industry may have a superficial appeal from a 2011 viewpoint, however the history of the live export trade is heavily against the argument.

There is a consensus that as regards the cattle industry, the live trade dramatically switched the focus of stock production and supply lines, even from sources one would associate with the defense of the trade. For example, the ABARE (2008: 2) position is as follows:

> *"As the northern export cattle industry developed, strong demand for live product resulted in prices for feeder and finished cattle increasing. As a consequence, the number of export accredited abattoirs in the region decreased as slaughter cattle were diverted away from the beef trade toward the live cattle trade."*

Only one correction to the above point needs to be made. Export accredited abattoirs in the region did not "decrease", they totally disappeared. Currently, there are no cattle processing establishments of any significance right across the north of Australia from Townsville in Queensland through to Perth in Western Australia.

Other interpretations (Hassall 2006: 25) attempt to explain that the massive shift in northern cattle production was predicated on abattoirs closing first:

> *"Historically, the common practice was for northern Australia beef producers to turnoff store cattle and transport them east and south for 'fattening' (e.g. on the Channel Country) but most were slaughtered in small, seasonally operated abattoirs which generally struggled financially. When these plants closed, the industry was transformed when live cattle exports surged in the nineties and early years of this decade. Currently, the movement of cattle east and south ebbs and flows, depending on prices offered for cattle for live export versus slaughter cattle."*

There is a major flaw in the assertion. It is the case that a number of very small operations in the Northern Territory closed in the late 1980s. Plants with an average capacity of 200 head or less per day (cattle/buffalo) at Wyndham, Derby, Broome, Alice Springs and Tennant Creek all closed in the 1980s at various times. However abattoirs of equal or much higher slaughtering capacity have closed progressively <u>after</u> the rise of the live export cattle industry in or about 1990:

- 1994: Ross River abattoir, Townsville. Operated by Smorgons group. Daily capacity of over 600 head.
- 1997: Merinda abattoir, Bowen. Operated by Thomas Borthwick & Sons. Daily capacity of over 300 head.
- 2001: Katherine abattoir, Katherine. Operated by Consolidated Meat Group. Daily capacity of over 300 head.
- 2001: Batchelor abattoir, Batchelor. Operator- various. Daily capacity of around 200 head, processing buffalo at the time of closure.
- Post 2002 – Kununurra abattoir, Kununurra. Precise closure date unknown, operator unknown. Small abattoir with estimated daily capacity of around 100 head.
- 2006: Innisfail abattoir, Innisfail. Operated Teys Bros. Daily capacity of over 300 head.

A study into meat processing in Western Australia (DAWA 2004: 8) noted that:

> *"Abattoir numbers were relatively stable in the 80s, and 57 abattoirs existed in WA in 1990. Since then, many domestic (local/code abattoirs) have closed, and there are now only 29 commercial abattoirs, which is a long way short of previous numbers in the sector."*

Suggesting that abattoir closures were a driver for a massive shift in cattle production in Northern Australia might be a neat hypothesis for the live export trade. The problem is it is unsupported by the facts.

Similar trends occurred after the rise (and rise) of the sheep live export trade. The Senate Committee Inquiry conducted in 1985 (1985: 148) noted:

> *"12.42 In 1983 and 1984 40 abattoirs closed in Australia.54 In NSW 14 abattoirs closed between 1980 and 1984, including six local government works, the upkeep and interest payments of which were costing taxpayers over $5 million per annum."*

Live export exerts a powerful strangulation over stock supply lines. There is no better evidence of this than the recent feasibility study into the prospect of establishing an abattoir in North Western Australia (RIRDC 2010: 22-23):

> *"The abattoir operator would need to be confident that it had claim over sufficient cattle numbers on hand or within an easy haul of the facility ahead of the wet season in the tropics...*
>
> *... ... ...*
>
> *This approach would be difficult to pursue in an environment where live trade competes opportunistically with the processing stream, within which an animal may require the investment in another 1-2 years of growth (beyond the live export sale age) before generating a return to the various producers bringing it to maturity.*
>
> *It is hard to envisage a substantial processing stream generating commercial acceptable returns to investors in this environment. The live export 'tap' can be turned on and off fairly easily by producers in response to market conditions and customer practices. By contrast, the processing stream, once turned 'on', cannot be turned 'off' very often or for very long.*
>
> *... ... ...*
>
> *A processing chain featuring a new facility(s) cannot be expected to work as an option of 'last resort', behind the live trade. Processing would need to become the dominant stream in the region of the abattoir, with live export as a back-up option"*

This is a major factor why processing and live export are, contrary to what is asserted, far from "complementary" activities.

It is also why assertions such as "The live trade has resulted in reduction of risk with access to more markets" (CIE 2011: 4) are superficial and fail to appreciate that the processing option is not a "tap" that can be turned on and off at will.

But this is not the full extent of the problem live export creates. Throughout the literature a positive virtue is constantly extolled: the live export market creates internal competition for available stock and keep stock prices higher than what would otherwise be the case.

There is a corresponding negative result. Processors operate in a highly competitive world market and are essentially price "takers". Domestic processors carry the highest regulatory burdens in the world in terms of legislative compliance with matters such as OHS, workers compensation, environmental requirements, compliance with Australian standards of employment, industry levies and full cost recovery of AQIS charges. The industry is also noted for its huge expenditure and revenue basis in order to generate (comparatively) wafer thin margins.

Added to these pressures are additional costs the carbon tax regime will impose and the looming danger of "Dutch disease" in Australia's manufacturing base. Huge revenues from natural resources are a major factor behind an ever increasing $AUD; the squeeze on exporters seems to be drifting along unnoticed in domestic policy.

Upward trends in stock prices effective squeeze margins and competitiveness in international markets, threatening viability:

> *"The Taskforce reviewed the available evidence, substantiating the existence of direct competition between the local meat processing sector and the live animal export trade.*

The Taskforce concluded that at least some of the problems experienced by the processing sector in recent years were directly attributable to this competition from the live trade. The impact of the growth of the live export trade on Australian meat processors has been to exert a powerful pincer effect on domestic meat processing that:

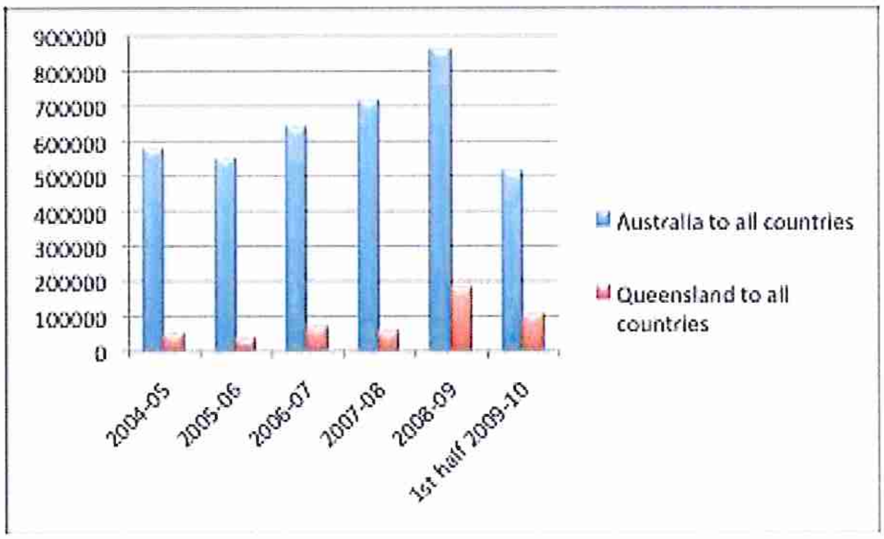
> *(a) increases prices that West Australian meat processors have to pay for livestock, and ceteris paribus reduces their profit margins"*

(DAWA 2004: 2)

The decision making structures and the membership base of MLA are dominated by livestock producers. It is most likely for this reason that the reflex negative aspect of higher stock prices is rarely considered, mentioned, investigated or quantified. Farm gate returns are the only consideration.

It is also to be noted that this powerful "pincer" effect the live export industry creates is not confined to northern Australia in the case of cattle, or Western Australia in the case of sheep.

Heilbron (2010: 10, source ABS) documents the ever increasing "drift" of cattle out of the State of Queensland, for the live export market, particularly to the Indonesian market:



There is much at stake. Meat processing is the “jewel in the crown” of Queensland agriculture. It is that State’s largest manufacturing industry, largest rural based industry and only behind coal in terms of size and export revenues. Queensland has by far the largest meat processing industry in Australia and accounts for over 60% of Australia’s beef exports to high value premium overseas markets (Heilbron 2010: 3-4).

The projections of the trend apparent at that stage were that it is “on the cards” that the two meat processing plants north of Rockhampton (Mackay and Townsville) would disappear. Through transparent, orthodox and sound economic modeling, Heilbron (2010: 6) also demonstrated that:

- On the baseline numbers of live exports flowing out of Queensland in 2008/09, there was an economic loss to Queensland of $140 million in GSP and 1200 lost jobs;
- On a projection of the trend in live export cattle being sourced out of Queensland, by 2013 there would be an economic loss of $260 million in GSP and 2180 lost jobs; and
- If live exports of cattle out of the Northern Territory and Queensland were ceased, there would be a gain of $382 million in GSP and 3112 jobs generated.

These types of findings are identical to earlier studies by the same author (Heilbron 2000) concerning the impact of live exports across Australia.

It might be suggested that the current situation regarding the Indonesian live cattle market has eased the pressure that this study is based on. This would be an unfortunate narrow view of the situation. The history of the live export cattle trade is one marked by exceptional fluctuations in demand. Consistent upswings of 30% and 40% year on year are evident in the statistics.

It should also be noted that the live export trade has been adept at sourcing new markets. Cattle being exported to Turkey increased from 168 to 98 049 year on year between March 2010 to March 2011 (MLA/Livelink 2011: 2). Significantly, the Turkish market is only accepting Bos Taurus type cattle, which is more closely associated with southern Australian cattle production.

Similar "tentacle" like effects are being exhibited by the live sheep trade. Contractions in the national herd have seen increasing numbers being sourced out of South Australia and Victoria for live export over the period 2005-09 (MLA 2011: 24).

Over its history, the live export trade has exhibited cannibalistic features. Large tracts of livestock production areas in Western Australia, the Northern Territory and (to a lesser extent) in northern Queensland were transformed from higher value livestock production to lower value adding livestock production which completely eliminated the significant value add opportunities that meat processing in the value chain generated. This was not an "addition" to the supply chain; it was a consumption of existing capacity for a different purpose. Once in place, the live trade exhibits "boa constrictor" characteristics over supply chains to the extent that establishing, or reestablishing, meat processing within its regions is impossible.

Conventional live export discourse describes this as responding to "market signals". The reality is that it was a response to heavily distorted price signals affected by subsidies and other blunt protectionist measures.

During the periods of high demand in the live export trade, the demand for livestock extends beyond the boundaries of these regions said to be focused on the live trade. Thus the trade is not an "addition" or "extra" aspect of the market; it simply cannibalizes a different and new part of the existing supply chain and diverts activity away from the higher value adding and employing activity of meat processing.

What is rarely appreciated is that these extensions, even in short bursts, have catastrophic effects for the meat processing industry. The meat processing "tap" isn't one that can be switched on and off at convenience; continuity of trade is essential for viability.

Any suggestion that the live export trade hasn't been a substantial factor in the elimination of 20 000 direct jobs in meat processing defies history, experience, the facts and all bounds of rational analysis.

7 Substitution – is the Absolutism of the Live Trade Justified?

The key defense of the live export trade and its pessimistic predictions about a sudden cessation of the trade is the oft repeated line that processed meat and live sheep and cattle are not "substitutes" in the market.

A prime example of this comes from the DAFF website in a section outlining the overall benefits of the live export trade[10]. It is asserted there:

> *"There is evidence that if Australia were to withdraw from live exports, there would be no increased trade in processed Australian meat.*
>
> *When Australia's live export trade to Saudi Arabia was suspended, there was no significant increase in the meat trade during that period. In fact, the trade in meat to this market only increased when live exports resumed."*

The claim is directly at odds with the conclusions reached by ACIL Tasman (2009: xiv) following a comprehensive 19 year time span analysis of 8 major live sheep export destinations in the Middle East. As a result of this detailed analysis, they found that:

> *"Our calculation of the correlation between live sheep and sheep meat (by weight) indicates a relatively strong negative relationship—that is, as sheep meat imports rise, live sheep imports fall. An important factor in this relationship is the dramatic increase in GDP growth in this region."*

Moreover, the assertions relating to Saudi Arabia do not appear to be supported by the facts. It is assumed that the suspension referred to by DAFF is the relatively small period between August 2003 and July 2005, as a result of the "Cormo Express" incident. The "Saudi Arabia"

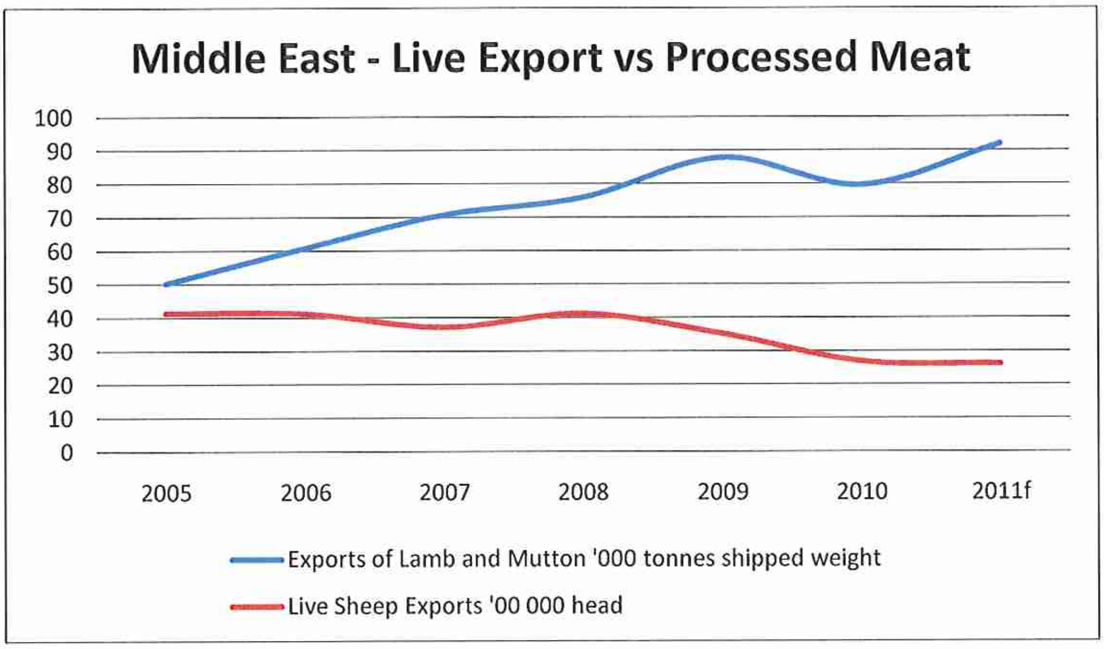
[10] http://www.daff.gov.au/animal-plant-health/welfare/export-trade/benefits

graph in table 15 of the ACIL Tasman report (2009: 45) indicates there was a small but discernible increase in sheep meat imports after the ban was imposed that emerged prior to the resumption of the live sheep trade. The assertion also disregards the impact generally to the image of Australian sheep and any processed meat derived from them that a rejection of a consignment of Australian sheep on the (perceived) grounds of scabby mouth disease would bring.

A substantially longer ban on exporting live sheep to Saudi Arabia existed between 1991 – 2000. As ACIL Tasman (2009: 43) note:

> *"In 1991-92, following a ban on Australian live exports in 1990, Saudi Arabian imports of processed sheep meat from Australia increased from 7,900 to 25,122 tonnes (an increase of 318 per cent)10. Similarly, Egyptian imports of Australian sheep meat rose by 300 per cent between 2002-03 and 2005-06, when Australian live sheep imports were stopped.*
>
> *During the same period, 100 percent of Australian live sheep exports to Saudi Arabia were being replaced by chilled sheep meat."*

In this submission we have noted previously that live sheep exports are declining in the last few years or so to the Middle East, despite 65% of the market for that product being subsidized. We have also noted the exceptionally strong demand in those markets for processed Australian mutton and lamb. The overall global trend in the Middle East market provides a valuable insight into the degree of substitution currently occurring, despite the tariff impositions on processed meat into the Middle East.



Data Source: MLA 2011 Sheep Industry Projections. f = forecast

"Middle East" includes Saudi Arabia, Kuwait, UAE, Jordan, Oman, Bahrain, Libya and Qatar

The conclusion reached by ACIL Tasman (2009) that there is "a relatively strong negative relationship—that is, as sheep meat imports rise, live sheep imports fall" was a valid assessment on all the evidence in 2009. Subsequent trends have only served to fortify the position.

It is to be noted that the period demonstrated above has been unencumbered by any trade suspensions – that is "forced" choice has not been a factor.

We also suggest that on current trends, were all the subsidies removed from the live export Sheep trade, a very substantial deepening of the clear trend already present would occur. It is also to be noted that a high $AUD, contractions in domestic turnoffs and record stock prices are affecting both the processed meat and live export trades.

As part of this submission, the AMIEU commissioned ACIL Tasman to compile an update of the country by country statistics in the Middle East it produced (2009: 48, Figure 18) relating to the relationship between rising per capita incomes, live exports of sheep and sheep meats. Further new studies of selected live cattle and imported beef markets were requested. That update and the commentary on the trends appears as Appendix 1 to this submission.

It is difficult to marshal up a comprehensive analysis of the degree of substitution between processed beef and live cattle exports. Indonesia is the most significant market for live cattle. It has not undergone any lengthy suspensions in trade. We have previously noted the blunt and highly restrictive trade barriers on processed beef entering this market. These factors would have a substantial distorting effect on any true picture of substitution. On the limited evidence available however, patterns of a similar "negative" relationship present in the sheep trends do appear.

8 Live Export – A Significant Barrier to Investment in Australian Meat Processing

We have referred to the feasibility study completed in 2010 in relation to establishing a meat processing facility in North Western Australia or the Northern Territory. The study was jointly commissioned by the Commonwealth and Northern Territory governments. The key points made are as follows:

> *"A processing chain featuring a new facility(s) cannot be expected to work as an option of 'last resort', behind the live trade. Processing would need to become the dominant stream in the region of the abattoir, with live export as a back-up option."*
>
> (RIRDC 2010: 23)
>
> *"The abattoir operator would need to be confident that it had claim over sufficient cattle numbers on hand or within an easy haul of the facility ahead of the wet season in the tropics, during which time long distance transport of cattle from inland pastoral properties is often inhibited. It would therefore need to invest in alliance agreements with the owners of the properties providing the growing out services, along with other operators holding cattle at different stages of the chain.*
>
> *This approach would be difficult to pursue in an environment where live trade competes opportunistically with the processing stream, within which an animal may require the investment in another 1-2 years of growth (beyond the live export sale age) before generating a return to the various producers bringing it to maturity.*
>
> *It is hard to envisage a substantial processing stream generating commercial acceptable returns to investors in this environment. The live export 'tap' can be turned on and off fairly easily by producers in response to market conditions and customer practices. By contrast, the processing stream, once turned 'on', cannot be turned 'off' very often or for very long."*

As part of this submission, the two major meat processors in Australia were consulted about their views on the above observations in the feasibility study. Their responses are detailed below, with their consent.

Bradley Teys, CEO of Teys Bros / Cargill

> *"Teys agrees with the comments made in the feasibility study. In the current climate, a northern processing facility would not be able to secure a consistent supply of cattle and would play second fiddle to the live trade. Abattoirs do not survive in such circumstances. An abattoir is not something that can be turned on or off at the whim of a competing trade. These days, Australian beef export abattoirs are sophisticated businesses that require large amounts of capital backing and process under strict standards with regard to food safety, hygiene, OH&S and environmental practices. Beef Abattoirs operate in an extremely competitive environment on extremely tight margins. Disruptions to throughput programs due to lack of supply have a significant negative impact on viability."*

John Berry, Director and Manager, Corporate Affairs, JBS Australia Pty Ltd

> *"The statements in the Western Australian study are just real commercial facts for anyone considering establishing a northern meat processing plant.*
>
> *JBS Australia operates Australia's most northern meat processing plant in Townsville. In 2009, we were forced by trading conditions to reduce the operations from 7 to a 5 day per week, resulting in the loss of 260 jobs.*
>
> *There has over the past few years been a move to larger live cattle vessel loading direct from Townsville.*
>
> *Northern plants face several challenges, such as seasonal weather conditions, rain or drought, which effects livestock production and supply to processors. This is combined with capital required to operate export plants and the need to operate as close to a full year as possible. You can't turn these businesses on and off.*
>
> *The nearest international market for our product, Indonesia has a zero tariff for live cattle imports, but a 5% tariff for Australian boxed beef, with offal exclusions.*

> *The closures of over 15 meat plants in the north over the past 25 years show the history and also the challenges faced today in operating export meat plants, especially in a more competitive, higher regulated and higher cost based operating environment. We have to work hard just to stay competitive in the international market place."*

It must be accepted as axiomatic that the live export industry is a huge barrier to investment in meat processing in Australia. It is presently a huge impediment to investment in processing cattle in Northern Australia from Townsville to Perth; and a huge impediment running through Western Australia, South Australia and Victoria in the case of processing sheep.

The threat of continual expansion permeates this environment. Live exporters have shown themselves to be adept in expanding their supply chains. Whilst the trade continues, incentive to invest in the Australian meat processing industry is being choked off.

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Appendix 1 Follows

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1 Live sheep and cattle trade data update

This is an update of the Australian live sheep, sheep meat and lamb exports to selected countries that appeared in the ACIL Tasman report *Australia Live Sheep Exports: Economic Analysis of Australian live sheep and sheep meat trade* (2009). The report also contains a similar data set as used for the live sheep trade for live cattle and beef exports.

The data was updated for the Australian Meat Industry Employees Union in July 2011.

1.1 Methodology

The data used in this analysis was:

- GDP per capita is in PPP in constant prices from the IMF (http://www.imf.org/external/data.htm)
- All numbers of live exports are sourced from LiveCorp, who use Australian Bureau of Statistics data: (http://www.livecorp.com.au/Facts_and_Stats.aspx)
- All values of meat trade were sourced from the UN Com Trade database: (http://comtrade.un.org/db/dqQuickQuery.aspx?cc=011&px=S3&r=36&y=all&p=458&rg=2&so=9999&qt=n
  - The codes for the UN Comtrade date were:
    - … Australi 36 , Bahrain 48, Egypt 818, Indonesia 360, Japan 392, Jordan 400, Kuwait 414, Malaysia 459, Oman 512, Phillipines 608, Qatar 634, Saudi Arabia 682
    - … Sheep meat 0121, Bovine meat 011

The live sheep exports were converted to a meat weight equivalent using a conversion factor of 22kg dressed weight average for each live sheep. The Indonesian live cattle exports were converted to a meat equivalent using conversions factors of:

- 450kg average live weight x 51 per cent dressing percentage between 1990 and 2008
- 350kg average live weight x 49 per cent dressing percentage for 2009 and 2010

The reason the cattle live weights were changed was due to the cattle live weight restrictions introduced by the Indonesian Government in 2009 which set the maximum live weight for live cattle at 350kg. Other live cattle importing countries used only the 450kg conversion factor.

Once the data was assembled and converted the data was reported as an index where 1990 = 100. This allowed greater representation of year on year volatility for live sheep and cattle and meat exports to selected countries.

1.2 Results

The updated results for live sheep and sheep meat exports to main Australia destinations in the Middle East show a continuation of the trends in the 2009 report. However, for every country except Oman there has been a substantial rise in sheep meat exports to almost all the countries in 2009 and 2010.

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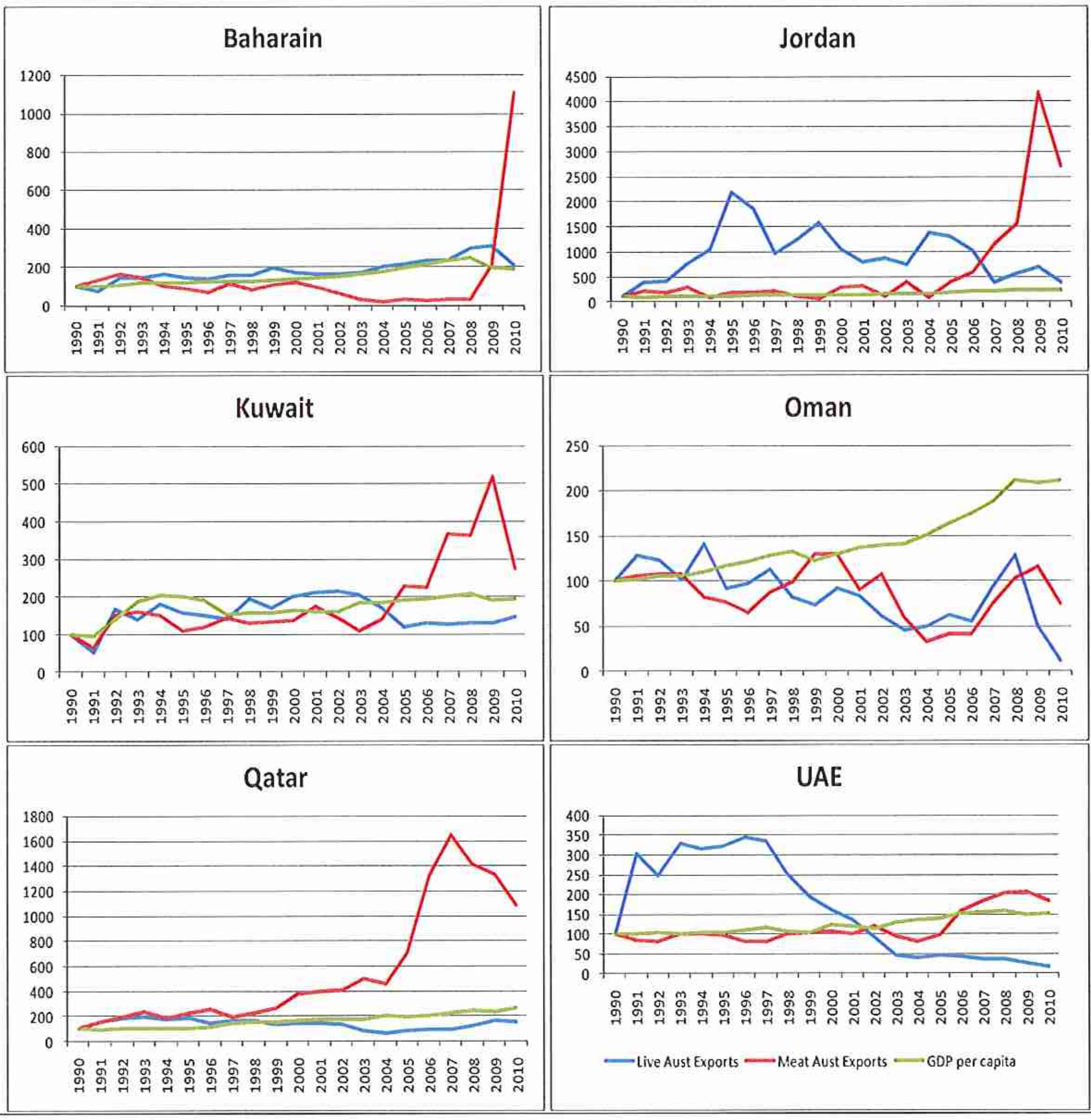
This rise is most pronounced in Bahrain which is the single biggest market for live sheep in the Middle East. Between 2008 and 2010 live sheep exports to Bahrain fell by 217,0000 head or 30 per cent. This equates to approximately 4.78mkg of dressed sheep weight. Over the same period sheep meat imports from Australia increased from 143,000kg to 5.86mkg, a rise of 5.72mkg. This analysis has not reviewed the possible reasons for this dramatic rise in meat and fall in live imports, it is likely that the 2008-09 drought in Western Australia may have reduced the supply of suitable stock from WA resulting in Bahrain consumers substituting live sheep meat for processed sheep meat sourced from Australia.

While point comparisons such as this should be treated with caution, all countries except Oman have experience significant rises in sheep meat imports from Australia between 2004 and 2010.

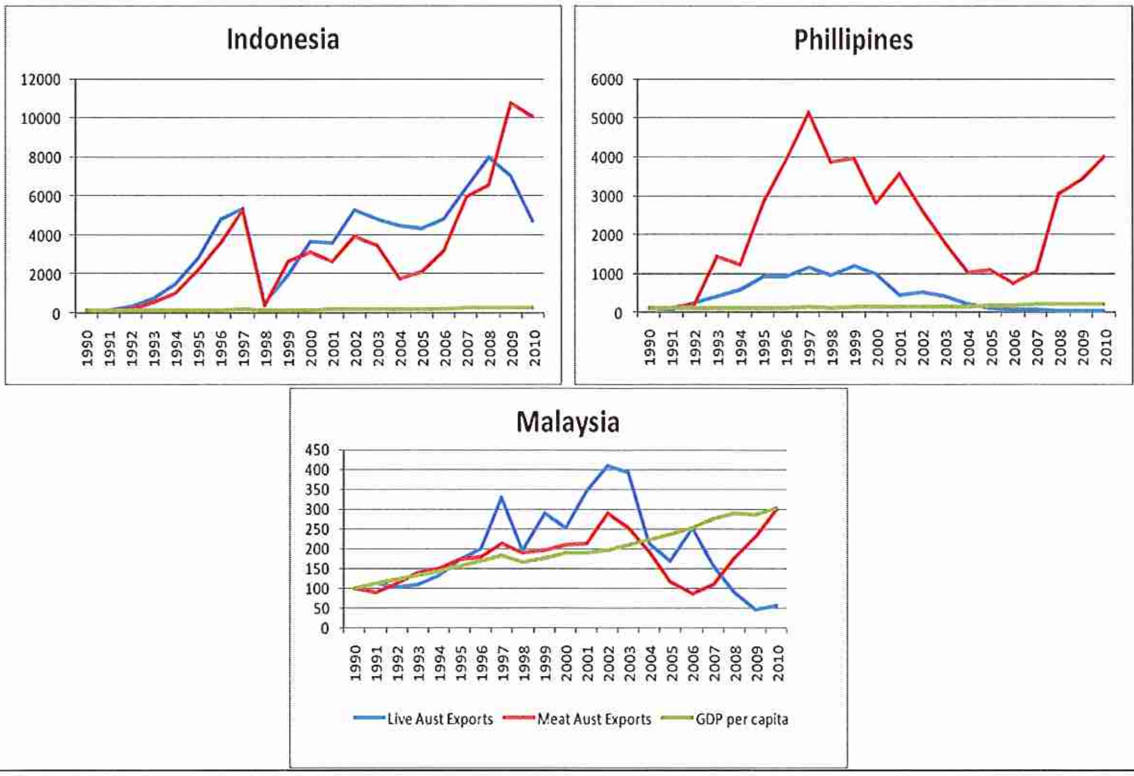
Chart 1 **Index of live sheep (dressed weight), sheep meat and GDP for selected Middle East Countries**



Data source: UN Comtrade and ABS

Cattle live exports are dominated by the Indonesian market. However, cattle are also exported to the Philippines and Malaysia. The charts of the indexes for beef consumption show similar trends as those for sheep. All of these countries show a recent rise in beef imports from Australia and a fall in the live cattle index.

Chart 2 **Indexes for live cattle, beef and GDP for selected countries**



Data source: UN Comtrade, ABS

Egypt has been reported separately due to differences in the index year. Egypt shows similar indications of substitution between live sheep and sheep meat from Australia. Also there has been a significant increase in the beef import index from Australia. Although the increase in beef imports is coming from a low base.

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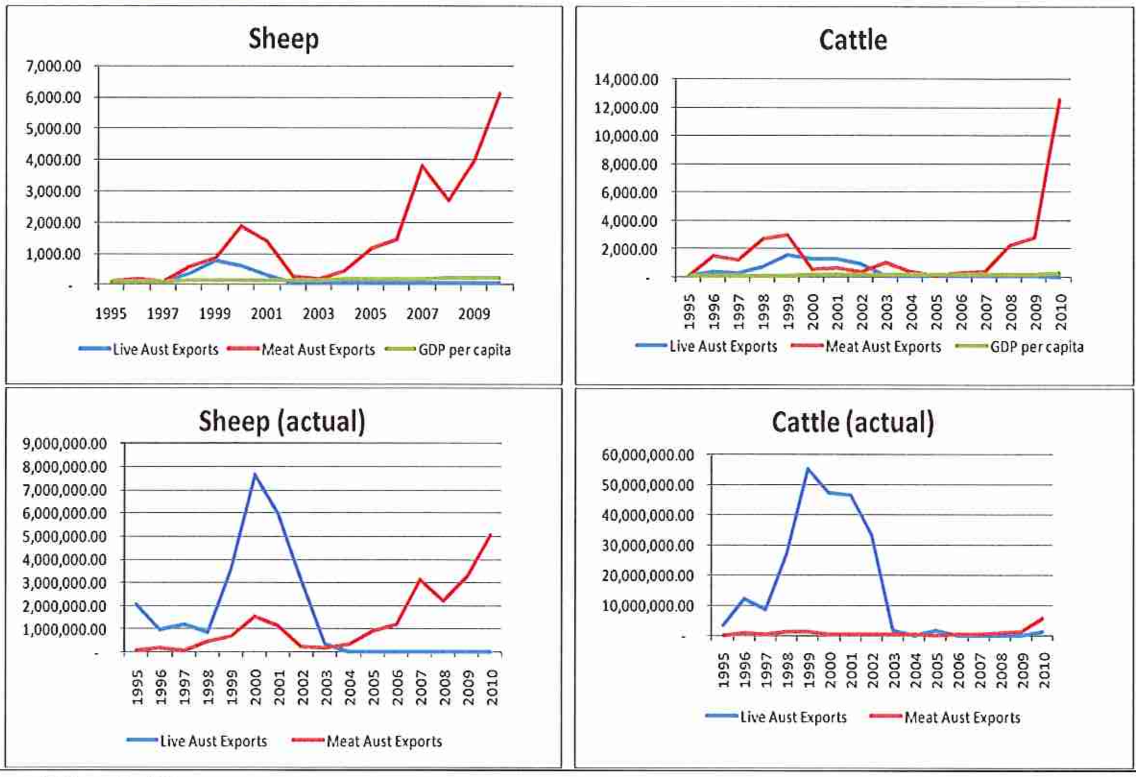
Chart 3 **Egypt sheep and cattle indexes and actual amounts for live animals, meat and GDP**



Data source: UN Comtrade, ABS