



WORLD SOCIETY FOR THE PROTECTION OF ANIMALS

SUBMISSION

JOINT SELECT COMMITTEE ON NORTHERN AUSTRALIA

INQUIRY INTO THE DEVELOPMENT OF NORTHERN AUSTRALIA

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SUBMISSION BY THE WORLD SOCIETY FOR THE PROTECTION OF ANIMALS (WSPA) TO THE JOINT SELECT COMMITTEE ON NORTHERN AUSTRALIA REGARDING AN INQUIRY INTO THE DEVELOPMENT OF NORTHERN AUSTRALIA

Introduction

WSPA welcomes the opportunity to provide input to the deliberations of the Joint Select Committee on Northern Australia on how best to define the future of northern Australia. The focus of our submission is the northern Australian cattle industry – to make recommendations which in our view would improve the performance and ensure the sustainability of cattle production in northern Australia.

The northern Australian cattle production industry is a vital component of northern Australia's regional economy. But it is an industry in need of assistance.

Our proposition

Our proposition is that the long term viability and sustainability of northern Australia's cattle industry would be better assured if northern cattle producers were able to exercise meaningful market choice on whether they have their animals processed in northern Australia closer to where the animals are reared or whether they continue exporting their animals for processing in overseas destinations.

With the current disposition of beef processing plants in Australia (excluding the plants under construction at Livingstone in the NT by the Australian Agricultural Company, and between Broome and Derby in North West WA by the Yeeda Pastoral Company/ Kimberley Pastoral Investments venture), they essentially do not have a choice. They are faced with the options of carting their cattle long distances in trucks, paying for freight and the loss of condition of their animals on the trip, or they can take an easier and more profitable option and export them for processing overseas. In effect they are reliant on live export destination markets which, especially in the cases of Vietnam, China, and Indonesia, may be short to medium term high volume destinations but which are also characterised by large scale government involvement. For the next three years the Indonesian market in particular is distorted by tariffs that favour live cattle imports over chilled and frozen meat imports. Reliance on live exports brings with it risks, which we describe later in this submission.

We recognise that for northern Australian cattle producers to have a choice requires firstly that there be northern Australian meat processing plants that are able to offer competitive prices to ensure themselves of continuity of cattle supplies at suitable weights. For plants to be able to do this they need to be able to receive cattle, that is, all-weather roads are required; they need to face externally imposed costs for power and other utilities and planning and compliance regimes that do not put them at competitive disadvantage. In addition they need the freedom to structure and arrange their operations in ways that reduce industrial and process rigidities and maximise as far as possible their productivity. Secondly, cattle producers need to be able to supply animals that meet domestic and export meat specifications to processing plants. This will require substantial work and research and extension - to improve rangeland (pasture) management and grazing management, to alter herd genetics, including by developing composite breeds to change the focus from survival to improved fertility and better meat yield and quality, and to change current business management practices.

To negotiate and put in place the required supportive policy framework and to actually undertake the work will take a number of years. It is because of this that we urge the Australian Government and relevant state and territory governments (Queensland, WA, NT), to initiate with northern cattle producers and meat processors the development of a strategy as soon as possible so as to provide in the medium and longer term options for northern Australian cattle producers.

Our position

WSPA is opposed to the live export of cattle (and other animals) for slaughter overseas and is strongly supportive of humane domestic processing. We consider live slaughter cattle exports to be unnecessary and to be a high risk practice.

Why live exports are not necessary

Live exports are not necessary because there are value adding opportunities available to northern Australia by processing animals domestically and exporting chilled and frozen carcasses and boxed meat that are foregone when live animals are exported.

In 2012 WSPA commissioned a study by ACIL Tasman to analyse the costs and benefits of increasing the amount of Australian cattle processed domestically that would otherwise be exported live. We asked ACIL Tasman to analyse under what circumstances a processing facility could be viable and the flow-on impacts to the industry and the northern Australian economy such a market might have. They investigated the conditions they believed were necessary to establish sustainable cattle processing in northern Australia and concluded that there were substantial benefits to be had. Specifically they concluded that processing up to 400,000 head of cattle per annum in northern Australia would be economically viable and create 1,300 new jobs. The Gross Regional Product would grow by up to \$204 million per annum and some cattle producers, by selling heavy steers and surplus older females for processing domestically, thereby reducing the average age of their herds and improving their productivity, would be able to substantially increase their gross earnings.

The processing plants currently being built by the Australian Agricultural Company (AA Co), and the Yeeda Pastoral Company validate ACIL Tasman's analysis. For instance AA Co, which is constructing a 200,000 head per annum meat processing facility at Livingstone in the NT to be completed later in 2014 at a cost of more than \$85 million, projects it will inject \$126 million a year into the local economy and create around 260 direct and about 500 indirect jobs. Importantly AA Co intends that at least 10 per cent of the 260 direct jobs will be filled by indigenous Northern Territorians. So too the Yeeda Pastoral Company, with its equity partner Kimberley Pastoral Investments, is building a \$20 million abattoir with the capacity to process some 55,000 head of cattle between Broome and Derby in North West WA.

The AA Co and Yeeda Pastoral Co projects are the first positive and new developments in northern Australian meat processing since the mid-1980s. WSPA supports them and urges the Australian Government to do so. They will provide market choice to northern Australian cattle producers, including possibly giving them the option of having their cattle finished (fattened) in relatively proximate feedlots locally if the returns are sufficient.

The AA Co and Yeeda projects also challenge the conventional wisdom that northern cattle processing cannot be financially viable. History is instructive; the rationalisation of the meat processing industry in northern Australia the 1980s did not happen because somehow northern meat processing was intrinsically unprofitable.

Rather it happened because notwithstanding downturns in export markets, there was a massive expansion of domestic processing capacity from the mid-1970s through to 1980, resulting in processing capacity out-stripping cattle supply for much of the 1980s;

- in 1982 there were about 260 abattoirs operating in the domestic and export markets,
- in 1986 there were about 200 abattoirs operating in the domestic and export markets,
- in June 2013 there were 84 (68 export abattoirs and 16 domestic), none of which are north of Perth in WA or north of Townsville in Queensland.

The larger and predominantly foreign owned processors bought and closed the smaller regional operators and concentrated their operations in the central and southern regions of the country. Rationalisation continues to this day with the September 2012 closure of the King Island abattoir forcing King Island producers to ship their cattle to the Tasmanian mainland for slaughter.

Why live exports are high risk

Live exports are high risk because they largely rely on market distortions, that is, there are tariff advantages (albeit they are reducing) favouring the importation of live cattle over processed meat to Indonesia, China, and Vietnam, three large and growing destinations for Australian live cattle. Similarly the live sheep importing Gulf Cooperation Council (GCC) countries¹ (with the exception of the United Arab Emirates), impose a 5 per cent *ad valorem* tariff on imported frozen and chilled sheepmeat and edible sheep offal. Many of them provide substantial food subsidies to their populations. The longer term sustainability of discriminatory tariffs and subsidies is questionable; for instance, food and fuel subsidies in the GCC countries account for upwards of 7 per cent of regional GDP and there is growing discussion there on the need to phase out the current universal price subsidies in favour of more targeted forms of social protection.

Another risk derives from the long recognised pattern in developing countries that growing economies and rising personal incomes result in consumer preference for higher quality meat products sold in convenient ways in modern retail outlets. Thus, while countries may be willing to import live slaughter animals in the short to medium term, we are confident that in the longer term such demand will be replaced by demand for processed meat products. Indonesia is a case in point. For instance, although it is synonymous with live exports for the Australian beef industry the importance of boxed beef is rising fast in this rapidly modernising nation, now one of the world's top 20 economies. Supermarkets' share of Indonesia's retail spend is growing at a high rate, estimated at 19 per cent per annum by Indonesia's Minister for Trade, in line with growth in urbanisation from some 53 per cent of the population today to 71 per cent in 2030.² Penetration of refrigeration now sits at nearly 50 per cent of Indonesian households and malls, minimarts and hypermarkets are fast replacing "wet" markets and traditional outlets.³ Inevitably in WSPA's view, as Indonesia's democracy and economy continue to grow there will be market push-back against government imposition of import permits and domestic price controls through a "reference price" system. So too in the GCC countries; highly urbanised with young and relatively affluent populations, supermarkets and hypermarkets are replacing many of the traditional outdoor markets. The entry of international retail chains, changing lifestyles, evolving shopping patterns and wide product choices, has fuelled the proliferation of shopping malls and supermarket formats. Meat and Livestock Australia (MLA) has estimated that souk supplied meat currently accounts for 15-18 per cent of the market and is declining.

¹ GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

² McKinsey and Company, *The archipelago economy: Unleashing Indonesia's potential*, Sept 2012, p4

³ The Oxford Business Group, *The Report: Indonesia 2013 – Retail*

The trends are becoming clearer. There is a long term decline in Australian live sheep exports to the Middle East and corresponding growth in Middle East consumption of Australian Halal slaughtered beef and sheep meat. Reporting on meat exports to the Middle East, Queensland Country Life noted on 6 January 2014 that, "The market is transforming, after 35 years of preferring live exports Middle Eastern consumers are turning to boxed meat and higher value products". They took 61,000 tonnes of Australian beef in 2013, almost doubling the volume of trade a year earlier. Indonesian imports of Australian beef in 2013 totalled 39,400 tonnes, a 45 per cent rise in volume over 2012, restoring it to where it was in 2011, the year difficulties started following the exposure on ABC's Four Corners programme of animal welfare atrocities involving Australian cattle.

The "spread" of live cattle export markets is relatively thin, especially in comparison with processed meat export markets. There are relatively few alternatives to disruptions or losses at any destination whether they are caused by political issues, breaches in the Exporter Supply Chain Assurance System (ESCAS), or market changes brought about by changing community preferences.

There is also the animal welfare risk with live exports. Not only is the risk high (there have been 17 complaints made about ESCAS breaches in its first full year of operation), but the consequences are far reaching for livestock producers following exposure of animal welfare atrocities. If anything these risks will increase over time. Australian community awareness and concern with animal welfare, already at a high level and reflected in positive steps being taken by many organisations including those as diverse as the National Farmers' Federation, Coles and Woolworths, and the Livestock and Rural Transport Association of WA, will not decline. It will likely increase, fuelled by the high frequency of ESCAS breaches and animal welfare atrocities, continued assertions by the Government about the effectiveness of ESCAS, and seeming lack of action by the Government following atrocities. Out of the 17 complaints made about ESCAS breaches in its first year of operation there are 15 still under investigation.

Our recommendations to the Joint Select Committee

The quest for food security will become an increasingly pressing issue internationally in the coming years. As the world's population continues to grow and as incomes rise, especially in Asia, it is inevitable that the demand for high quality meat products will expand. Under pressure to feed their populations at affordable prices a likely first response by the governments of developing economies will be to push for self-sufficiency in as many agricultural commodities as they can, including meat. The debate in Indonesia and its current concern to achieve self-sufficiency is probably the first of many such debates that will occur in the Asia Pacific and more widely.

The Australian Government should seek to take advantage of this debate and turn it towards food security – and seek to position Australia as a proven and reliable supplier of safe, traceable, high quality, high value, agricultural commodities, including meat produced in accordance with strict Halal requirements.

In the same way as Australia has assured minerals-importing countries of security of supply - by enabling their corporations and investors to wholly own some mines, acquire equity in others and rely on long term contracts in others, - so should the Australian Government adopt the same approach towards the development of the livestock and meat processing industries in northern Australia.

The Australian Government should recognise that the risks to northern cattle producers through their dependence on the live export trade can be mitigated and the development of northern Australia enhanced if the government takes some positive steps to achieve this. Specifically the government should initiate a process to develop an industry strategy that provides the opportunity to northern cattle producers to have their animals processed in northern Australia, closer to where the animals are reared. It should initiate this process in cooperation with key stakeholders such as the governments of Queensland, Western Australia and the Northern Territory and northern cattle producers, and meat processors.

Framework issues to be negotiated, agreed, and incorporated in the strategy include:

- The importance of pursuing domestic value adding opportunities that would arise from processing animals domestically
- Elements needed to contribute to a policy and regulatory framework supportive of the production of cattle that better meet domestic and export meat specifications than do *Bos Indicus*. They would include work and research to;
 - improve rangeland (pasture) management and grazing management, including growing-out and backgrounding
 - alter herd genetics, including by developing composite breeds to change the focus from survival to improved fertility and better meat yield and quality
 - change current business management practices
- Elements needed to contribute to a policy and regulatory framework supportive of meat processing in Northern Australia. They would include;
 - access to power and other utilities and planning and compliance regimes that do not put them at competitive disadvantage
 - freedom of processors to structure and arrange their staffing and operations in ways that reduce industrial and process rigidities and maximise as far as possible their productivity
- The importance of foreign investment in cattle production and meat processing
- The importance of and terms of provision of communication infrastructure such as all-weather roads
- The importance of engaging with live animal importing countries to negotiate elimination over time of tariffs, subsidies, quotas, licenses and other measures that distort markets and favour live animal imports over meat imports
- The importance of undertaking new and strong marketing initiatives to grow current export meat markets and identify new ones

In our view none of the above need involve significant ongoing financial expenditure by government, except for provision and maintenance of public use infrastructure such as all-weather roads. The research and extension work necessary could be financed through a re-ordering and re-prioritising of current programs.

WSPA thanks the Joint Select Committee for this opportunity to have input to its deliberations on the development of northern Australia. In outlining our position in this submission we have distilled research obtained evidence and analysis to stimulate debate on how best to ensure the long term sustainability of northern Australian cattle production and processing, and to contribute to the overall development of northern Australia.

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