



## **Submission No 14**

### **Inquiry into Australia's trade and investment relationship with the economies of the Gulf States**

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**Australian Government**  
**Department of Agriculture,**  
**Fisheries and Forestry**

**Submission**

**Inquiry Into Australia's Trade and Investment Relations With  
The Gulf States**

Trade Sub-Committee  
Joint Standing Committee on Foreign Affairs, Defence and Trade



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## **Executive Summary**

The discovery of oil, and the subsequent socio-economic transformation that ensued, has provided many of the Gulf States with the financial wherewithal to import a range of goods – including Australian agricultural, fisheries, forestry and food (DAFF portfolio industries) products.

The Gulf States now represent Australia's sixth most important market for exports of DAFF portfolio industries after Japan, the United States, China, South Korea, and the United Kingdom. Australia's export success in the Gulf States is underpinned by our longstanding reputation as a reliable supplier of quality foods and other primary products. In 2002-03, Gulf States represented Australia's largest market for exports of live sheep (\$396m), a major market for wheat (exact figures are confidential, but estimated at around \$300m - \$400m), an important market for dairy products (\$253m), and meat (around \$208m). However, Australia imported negligible amounts of agricultural commodities from the Gulf States.

Much of the growing demand for agricultural products in these countries has been satisfied not through imports, but by the Gulf States using their oil wealth to make significant investments to increase the productive capacity of their land and hence boost their domestic agricultural production.

There is evidence, however, that the potential for some of the Gulf States to boost domestic production further may be effected by physical constraints associated with the lack of reasonably priced water, and productive agricultural land. The experience of Saudi Arabia and the UAE during the 1980s and 1990s indicates that these countries formed a view during this period that increasing domestic agricultural production comes with an environmental and budgetary cost which needs to be considered when formulating agricultural policies.

It is likely that a significant proportion of future increases in demand for agricultural products by the Gulf States will need to be met by imports, although it is likely that investment in increasing the productive capacity of the agricultural sectors of the Gulf States will continue to boost domestic production to some degree.

Australian agricultural industries face a range of trade impediments, but also have the potential to capitalise on a number of opportunities in the future, including:

- Possible FTAs or other agreements on closer economic integration with the GCC or with individual Gulf States, if they are concluded, would have the potential to expand export opportunities for selected DAFF portfolio industries.
- Saudi Arabian WTO membership would further expand bilateral trade opportunities and enhance the scope for Australia and Saudi Arabia to work together more closely to promote global trade liberalisation within the multilateral trade framework.
- A lifting of the ban on the import of lentils by Saudi Arabia would have the potential to increase exports substantially. Negotiations are taking place on import guidelines that may lead to the reopening of this trade.
- A Saudi Arabian Government decision to reduce the level of support for its wheat farmers by reducing its Government Purchase Price from US\$400 to US\$266.67 from the 2004/05 crop could open up further market opportunities for efficient

world competitive wheat producers such as Australia. This decision follows a similar recent decision for barley.

- NFIS Ltd sees significant potential for exports of high quality food exports targeted at premium Gulf States' markets, especially Dubai.

DAFF's role in bilateral trade issues is mainly one of facilitation of trade through identifying and addressing trade impediments (in conjunction with DFAT), and providing effective technical advice and export certification services.

DAFF's experience in responding to the recent *Cormo Express* and Portland live animal incidents has reinforced our view on the importance of engagement to resolve bilateral trade issues. The close engagement with live animal importing countries will assist the Government to achieve its objective of securing agreement to arrangements which would put the live animal trade with the Middle East region on a more secure and certain footing.

This closer engagement includes the establishment of a Veterinary Counsellor position to service the Middle East region, as well as more regular visits to the region, including the visit by Minister Truss scheduled for April/May 2004. Building close relationships in the countries in the region can assist in resolving future issues that arise and benefit the broader trade relationship between our respective countries.

In view of the likely increase in demand for Australian agricultural exports from the Gulf States, it is important that Australia continues to engage with countries of the region, and is proactive in addressing bilateral agricultural issues and protects our longstanding reputation as a reliable supplier of quality agricultural and food products.

## 1. Agricultural Demand in the Gulf States : Trends in Production and Imports

Before examining the agricultural trade relationship between Australia and the Gulf States, it is instructive to look at trends in the demand for agricultural products in the Gulf States and in particular the extent that the demand is met by domestic production, and the extent that it is met by imports.

Table 1 provides data on the total value of agricultural products imported by the Gulf States over the period since 1985. It can be seen that with the exception of Iran and Kuwait there have been increases in imported agricultural goods over the period. Total imports by all Gulf States rose by around 40% from around US\$11 billion in 1985 to US\$15.4 billion in 2002, with imports to the UAE, Oman, Qatar and Bahrain more than doubling, and imports to Saudi Arabia up by more than 30%.

**Table 1: Total Imports of Agricultural Products by Gulf States, Specified Years Since 1985 (US\$)**

Country	1985	1990	1995	2000	2002
Saudi Arabia	3,890.0	3,961.0	4,482.1	5,289.7	5,111.2
Bahrain	244.0	282.8	331.9	421.7	558.7
Iran	2,090.0	2,676.1	3,626.1	2,918.2	2,093.8
Oman	427.0	488.0	842.2	1,056.5	1,257.0
Kuwait	1,032.0	571.2	1,208.9	1,105.6	778.9
Qatar	209.7	295.4	329.2	396.4	479.9
UAE	1,118.3	1,693.3	2,419.7	2,670.9	3,145.9
<b>Total Gulf States</b>	<b>10,995.9</b>	<b>11,957.8</b>	<b>15,235.1</b>	<b>15,859.0</b>	<b>15,427.5</b>
<b>Total Gulf States – Adjusted for Inflation (a)</b>	<b>10,995.9</b>	<b>9,905.0</b>	<b>10,749.5</b>	<b>9,898.1</b>	<b>9,227.4</b>

Source: FAOSTAT data (see: [apps.fao.org/faostat](http://apps.fao.org/faostat))

(a) Adjusted by the US CPI.

However, after adjusting for inflation (see last row of Table 1) the “real” expenditure of the Gulf States on imports fell over the period. This is somewhat surprising, as it would be expected that with oil prices at substantially higher levels over the past two decades compared to previous periods the wealth generated from oil sales would have provided the Gulf States with the wherewithal to increase their imports of agricultural products much more significantly than was the case.

Tables 2, 3 and 4 indicate that there is another important consequence of the increasing oil wealth – many of the Gulf States used their oil wealth to make significant investments in increasing the agricultural productive capacity of their land, and hence boosting their domestic agricultural production.

The Saudi Arabian Government is a case in point<sup>1</sup>. The Saudi Government undertook a multifaceted program to modernize and commercialise its agriculture during the 1970s and 1980s with indirect support involving substantial expenditures on infrastructure, such as electricity supply, the development of extensive seawater desalination facilities, irrigation, drainage, secondary road systems, and other transportation facilities for distributing and marketing produce.

The Saudi government mobilized substantial financial resources to expand production of crops and livestock during this period. The Saudi Arabian Agricultural Bank provided interest-free loans to farmers for well drilling and casing, for agricultural projects, and for the purchase of farm machinery, including pumps and irrigation equipment. As illustrated in Table 4 Saudi Arabia increased its agricultural land from 97.6m Ha in 1985 to 173.8m Ha in 1995.

The Saudi Government also implemented an official procurement program, purchasing locally produced wheat and barley at guaranteed prices for domestic sales and exports. The procurement price was steadily reduced following the 1980s because of massive overproduction and for budgetary reasons. Nevertheless, during the 1980s, massive government incentives had increased the size of the agricultural sector from under 1 per cent of GDP in 1982 to about 10 per cent of GDP in 1990.

This rapid growth in output led to greater food self-sufficiency (particularly in food grains) but caused depletion of scarce underground water resources. Concerns about depletion of underground water resources and the budgetary implications of some of the subsidy policies have led to some scaling back of agricultural support. For example in June 1995 the procurement price for wheat was reduced from US\$533 to US\$400, and in late 2003 it was further reduced to US\$266.67 from the 2004/05 crop. However, as Tables 2 and 3 demonstrate, the Saudi agricultural sector remains significantly greater than it was in the 1980s.

There has been a similar experience in the UAE with both federal and emirate governments provide incentives to farmers. For example, the government offers a 50 percent subsidy on fertilizers, seeds, and pesticides. It also provides loans for machinery and technical assistance. The emirates have forty-one agricultural extension units as well as several experimental farms and agricultural research stations. The number of farmers rose from about 4,000 in the early 1970s to 18,265 in 1988, with agricultural production increased sixfold between 1979 and 1985.

As in Saudi Arabia, the drive to boost agriculture in the UAE has led to some unwelcome side affects, with a rapid depletion of underground aquifers, leading to precipitous drops in water tables and serious increases in soil and water salinity in some areas.

Nevertheless the past two decades have seen a significant transformation of agriculture in the Gulf States. Tables 2 and 3 show that:

- The production of a wide variety of commodities has increased appreciably across the Gulf States as a whole with fruit production increasing by 139%, meat

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<sup>1</sup> The following discussion summarises information provided in The Library of Congress' Federal Research Division's Reports on Saudi Arabia and UAE (see <http://lcweb2.loc.gov/frd/cs/> - accessed 15 April 2004).

production increasing by 111%, milk and milk products increasing by 94%, cereals up by 72% and vegetables rising by 52% over the period. Wool production also almost doubled off a low base.

- The country which dominates Gulf State agricultural production – Iran – was able to make solid gains across the range of agricultural commodities with fruit production increasing by 137%, meat production increasing by 121%, milk and milk products increasing by 83%, cereals up by 85% and vegetables rising by 44% over the period.

**Table 2: Production of Specified Agricultural Crops by Gulf States, Specified Years Since 1985 (Tonnes)**

Commodity/Country	1985	1990	1995	2000	2003
<b>Total Cereals</b>					
– Saudi Arabia	2,187,821	4,136,772	2,668,863	2,131,464	2,353,000
– Bahrain	0	0	0	0	0
– Iran	10,727,817	13,683,863	17,031,706	12,873,964	19,810,000
– Oman	1,101	5,140	5,550	5,763	5,771
– Kuwait	3,109	1,830	2,101	2,835	3,300
– Qatar	1,539	3,135	4,256	6,015	5,810
– UAE	1,300	2,877	972	364	200
– <b>Total Gulf States</b>	<b>12,922,687</b>	<b>17,833,617</b>	<b>19,713,448</b>	<b>15,020,405</b>	<b>22,178,081</b>
<b>Total Fruit</b>					
– Saudi Arabia	726,708	803,890	1,052,988	1,189,000	1,267,000
– Bahrain	17,050	10,150	21,461	21,518	21,518
– Iran	5,357,996	7,163,554	10,296,997	12,287,001	12,712,813
– Oman	140,930	181,850	232,530	335,234	294,636
– Kuwait	743	1,933	5,218	11,250	11,488
– Qatar	7,681	7,402	13,642	17,542	17,990
– UAE	85,758	180,438	276,817	796,548	797,280
– <b>Total Gulf States</b>	<b>6,336,866</b>	<b>8,349,217</b>	<b>11,899,653</b>	<b>14,658,093</b>	<b>15,122,725</b>
<b>Total Vegetables</b>					
– Saudi Arabia	1,541,806	2,201,169	2,317,230	1,546,401	1,842,000
– Bahrain	8,043	9,809	12,311	11,568	10,369
– Iran	8,171,215	9,839,983	7,874,656	11,498,627	11,777,000
– Oman	175,000	155,000	168,400	175,528	183,673
– Kuwait	77,266	102,579	97,555	174,075	180,492
– Qatar	17,391	27,387	47,276	53,232	55,475
– UAE	228,128	245,460	716,401	2,606,254	1,546,744
– <b>Total Gulf States</b>	<b>10,218,849</b>	<b>12,581,387</b>	<b>11,233,829</b>	<b>16,065,685</b>	<b>15,595,753</b>

Source: FAOSTAT data (see: [apps.fao.org/faostat](http://apps.fao.org/faostat))

- Saudi Arabia's production also increased across the board with the most significant increases in milk and milk products (182%), meat (111%) and fruit (74%). While cereal production was up only slightly over the period, production had increased spectacularly over the five year period up to 1990 (up 89%) before concerns about



the budgetary implications and the depletion of underground water resources led to a partial winding back of policies encouraging wheat production.

- The UAE's significant investment in agriculture increased this country's production of some commodities massively with fruit production up by around 830%, vegetable production up by almost 580% and appreciable increases in the production of meat and milk products.
- A similar pattern is evident with the other smaller Gulf States with significant increases in the production of some commodities (often off small bases) and more modest increases in other commodities.

**Table 3: Production of Specified Agricultural (Animal) Commodities by Gulf States, Specified Years Since 1985 (Tonnes)**

Commodity/Country	1985	1990	1995	2000	2003
<b>Total Meat</b>					
– Saudi Arabia	304,061	415,872	471,536	645,540	642,100
– Bahrain	9,787	10,911	14,230	14,496	16,718
– Iran	724,640	975,940	1,328,750	1,551,986	1,599,865
– Oman	17,790	24,890	28,579	38,643	41,825
– Kuwait	60,714	47,387	66,084	71,293	81,564
– Qatar	9,012	14,650	15,216	12,192	14,699
– UAE	43,180	53,637	80,259	80,110	74,920
– <b>Total Gulf States</b>	<b>1,169,184</b>	<b>1,543,287</b>	<b>2,004,654</b>	<b>2,414,260</b>	<b>2,471,691</b>
<b>Total Milk &amp; Milk Products</b>					
– Saudi Arabia	319,099	468,508	662,100	952,500	984,500
– Bahrain	9,862	18,898	16,457	14,390	14,390
– Iran	3,250,000	3,900,000	4,540,000	5,889,170	5,954,150
– Oman	55,060	74,170	93,700	101,920	103,180
– Kuwait	41,353	26,198	35,282	35,492	40,951
– Qatar	10,880	22,977	34,007	35,914	35,250
– UAE	30,212	42,371	59,424	82,502	85,359
– <b>Total Gulf States</b>	<b>3,716,466</b>	<b>4,553,122</b>	<b>5,440,970</b>	<b>7,111,888</b>	<b>7,217,780</b>
<b>Total Wool (Greasy)</b>					
– Saudi Arabia	6,684	7,000	9,100	10,000	10,800
– Bahrain	0	0	0	0	0
– Iran	40,000	44,600	50,900	75,000	75,000
– Oman	0	0	0	0	0
– Kuwait	825	318	197	417	500
– Qatar	0	0	0	0	0
– UAE	0	0	0	0	0
– <b>Total Gulf States</b>	<b>47,509</b>	<b>51,918</b>	<b>60,197</b>	<b>85,417</b>	<b>86,300</b>

Source: FAOSTAT data (see: [apps.fao.org/faostat](http://apps.fao.org/faostat))

**Table 4: Agricultural and Irrigated Land, Gulf States (and Australia), Specified Years Since 1985**

Category/Country	1985	1990	1995	2000	2001
<b>Total Agricultural Land (1000Ha)</b>					
– Saudi Arabia	97,625	123,481	173,785	173,785	173,794
– Bahrain	8	8	9	10	10
– Iran	59,870	60,500	63,018	60,326	60,548
– Oman	1,061	1,080	1,078	1,080	1,081
– Kuwait	137	141	142	148	151
– Qatar	59	61	67	71	71
– UAE	235	285	383	552	543
– <b>Total Gulf States</b>	158,995	185,556	238,482	235,972	236,198
– <i>Australia</i>	472,960	464,481	463,348	455,500	455,500
<b>Ag. Land (Percentage of Total Land) (%)</b>					
– Saudi Arabia	45.4	57.4	80.8	80.8	80.8
– Bahrain	11.6	11.6	12.7	14.1	14.1
– Iran	36.6	37.0	38.5	36.9	37.0
– Oman	3.4	3.5	3.5	3.5	3.5
– Kuwait	7.7	7.9	8.0	8.3	8.5
– Qatar	5.4	5.5	6.1	6.5	6.5
– UAE	2.8	3.4	4.6	6.6	6.5
– <b>Total Gulf States</b>	37.8	44.1	56.7	56.1	56.1
– <i>Australia</i>	61.6	60.5	60.3	59.3	59.3
<b>Irrigated Land (% of Total Land) (%)</b>					
– Saudi Arabia	0.53	0.74	0.75	0.75	0.75
– Bahrain	1.45	2.90	5.63	5.63	5.63
– Iran	4.16	4.28	4.44	4.58	4.58
– Oman	0.13	0.19	0.20	0.20	0.20
– Kuwait	0.11	0.17	0.28	0.56	0.73
– Qatar	0.45	0.55	1.18	1.18	1.18
– UAE	0.69	0.75	0.81	0.91	0.91
– <b>Total Gulf States</b>	1.91	2.07	2.15	2.21	2.21
– <i>Australia</i>	0.22	0.24	0.31	0.31	0.31

Source: FAOSTAT data (see: [apps.fao.org/faostat](http://apps.fao.org/faostat))

Table 4 provides information on land use in the seven Gulf States, with data also provided for Australia for comparative purposes. Some of the important implications to note from the table are:

- The dominance of Saudi Arabia and Iran in terms of the area of agricultural land among the Gulf States.
- It can be seen that many of the Gulf States have very little land suitable for agriculture – although the intensive investment over this period has resulted in

significant increases in land classified as agricultural land – especially in the UAE (up 130% to 543,000 hectares), and in Saudi Arabia (up 78% to 173.8 million hectares).

- The extent of the increase in irrigation in many of the countries – while the most significant increases were evident in the smaller States (for example Kuwait's area irrigated increased more than six-fold, and Bahrain's almost quadrupled), it is the less dramatic increases which occurred in the geographically larger countries which will have had the most impact on the productive capacity of the Gulf States.
  - Iran's increase from 4.16% to 4.58% represents an additional 700,000 hectares, whereas Saudi Arabia's increase from 0.53% to 0.75% represents an additional 470,000 hectares available.
  - The significance of these increases can be seen by comparing these areas to Australia's 2,400,000 hectares total land area under irrigation.

What are the **implications of this analysis** of the trends in domestic production and imports of the Gulf States?

- While in nominal terms agricultural imports to the Gulf States have increased modestly over the past two decades, the “real” expenditure of the Gulf States on imports fell over the period.
- Much of the growing demand for agricultural products in these countries was satisfied not through imports, but by the Gulf States using wealth generated from oil exports to make significant investments that increased the productive capacity of land and hence boosted domestic agricultural production.
- There is evidence, however, that the potential for some of the Gulf States to boost domestic production further may be constrained to an appreciable extent by physical constraints associated with the lack of reasonably priced water, and productive agricultural land.
  - The experience of Saudi Arabia and the UAE during the 1980s and 1990s indicates that these countries formed a view during this period that increasing domestic agricultural production comes with an environmental and budgetary cost which needs to be considered when formulating agricultural policies.
- It is likely that a significant proportion of future increases in demand for agricultural products by the Gulf States will need to be met by imports, although it is likely that investment in increasing the productive capacity of the agricultural sectors of the Gulf States will continue to boost domestic production to some degree.

## **2. Trade Overview**

### **i) Existing Australian Trade and Investment**

All Gulf States are significant food importers. The discovery of oil, and the subsequent socio-economic transformation that ensued, has provided many of the Gulf States with the financial wherewithal to import a range of goods – including Australian agricultural products – that they may not have otherwise imported. With the wealth flowing from oil discoveries differing between countries, a number of different regional markets are evident in the Gulf States, with different characteristics which influence the types of agricultural commodities imported. These regional markets are influenced not only by financial capacity but by a number of socio-economic factors, including the degree of urbanisation, size and capacity of local agricultural sector, influence of local customs and traditions, and the size and composition of the expatriate population.

The Gulf States represent Australia's sixth most important market for DAFF portfolio industries (agricultural, fisheries, forestry and food) exports (including confidential items – see below) after Japan, the United States, China, South Korea, and the United Kingdom. DAFF portfolio exports contribute substantially to Australia's exports to Gulf States (see Table 5).

**Table 5: Agricultural, Fisheries and Forestry Exports to Gulf Region in 2002-03  
(\$000s)**

Commodity Category	Bahrain	Iran	Kuwait	Oman	S Arabia	Qatar	UAE	TOTAL
Live animals	25,164		106,867	22,499	195,705	16,533	29,623	<b>396,391</b>
Bovine meat	1,072		9,217		13,692	2,536	11,769	<b>38,726</b>
Meat (excl bovine)	1,917		9,711	9,358	87,116	6,718	54,628	<b>169,447</b>
Milk and cream	1,587		9,566	12,778	32,155		9,642	<b>65,830</b>
Butter	1,554	4,282	3,738	1,572	13,291		8,190	<b>33,047</b>
Cheese and curd	5,641		20,792	4,692	98,898	3,395	19,486	<b>152,904</b>
Other dairy and eggs						521		<b>521</b>
Vegetables, fruit and nuts	4,029	0	3,205	683	14,167	511	24,759	<b>51,742</b>
Wheat and wheat flour	*	*	*	*	*	*	*	*
Barley			15,573	3,230	37,525		15,641	<b>71,970</b>
Other cereals and cereal preparations	1,008			22				<b>1,030</b>
Sugars, molasses and honey	*	*	*	*	*	*	*	*
Animal oils and fats		10,379						<b>10,379</b>
Other food & live animals	650	123	5,662	3,040	20,474	1,263	23,957	<b>55,169</b>
Animal feed	1,200					1,190		<b>2,390</b>
Cork and wood	*	*	*	*	*	*	*	*
<b>Total Ag Export (a)</b>	<b>43,822</b>	<b>14,784</b>	<b>184,331</b>	<b>57,874</b>	<b>513,023</b>	<b>32,667</b>	<b>197,695</b>	<b>1,049,546</b>
<b>Total Exports (b)</b>	<b>104,877</b>	<b>412,601</b>	<b>518,208</b>	<b>175,047</b>	<b>1,990,488</b>	<b>92,323</b>	<b>1,233,415</b>	<b>4,526,959</b>

Source : Australian Government Department of Foreign Affairs and Trade, "Composition of Trade, Australia", 2002-03, Commonwealth of Australia, 2003.

\* - Indicates Confidential Item. Totals include confidential items and may differ from the sum of the components because of the exclusion of confidential items from components.

- (a) Excludes confidential agricultural exports.  
 (b) Includes confidential items (agricultural and non-agricultural exports).

It is not possible to obtain a complete understanding of the level of agricultural exports to the Gulf States as a number of items – both agricultural and non-agricultural – are not specified in ABS statistics due to confidentiality reasons. The ABS makes confidential certain foreign trade statistics to ensure that details of any single firm's operations are not divulged. A consequence of this policy is that exports of a number of commodities, including wheat – are confidential. (As AWB Ltd is Australia's single desk exporter of wheat it is not separately available in the statistics, although they are included in totals.)

In 2002-03, Gulf States represented Australia's largest market for exports of live sheep (\$396m), a major market for wheat (exact figures are confidential, but estimated at around \$300m - \$400m), an important market for dairy products (\$253m), and meat (around \$208m).

Australia imported negligible amounts of agricultural commodities from the Gulf States. Total imports of non-agricultural goods from the Gulf States to Australia during 2002-03 were around \$2.5 billion, with crude and refined petroleum and fertilizers being the most significant components.

## **ii) Agriculture and Food Commodity Overviews**

### **a) Food**

Australian food (broadly defined) exports are a very important part of our trading relationship with the rest of the world, being valued at \$26 billion in 2002. Figures for the Gulf States are not separately available, but the market is a significant one with good potential for the future. Food exports to Dubai (one Emirate of the UAE) during 2002-03 have been estimated at A\$130 million.

NFIS Ltd is the outsourced service provider for certain programs under the Government's \$102.4 million, five year National Food Industry Strategy, including the Food Trade Program. NFIS Ltd is optimistic that trade with the Middle East will grow, believing that while commodity trade will continue, there is a growing awareness in the Middle East that there is potential for investment in downstream food processing either in Australia or in the Middle East. Dubai is particularly well placed because of its transport links to the world and to the rest of the Middle East, its free trade zones and its tenet of growth based around trade and tourism.

Under the Food Trade Program an agreement was signed on 3 March 2004 between NFIS Ltd and Barakat Vegetable and Fruit Company (Barakat), one of Dubai's largest food importers, relating to the NFIS "Efficient Food Service" project. This project involves a direct chain being developed between Australian premium food producers and suppliers into Dubai's 5 star hotels and palaces. The types of products targeted under the project will include premium beef, veal and lamb, rock lobster, oysters, prawns and finfish, cheese and other premium food products and beverages. The targeted market is estimated at \$US300 million, with anticipated growth of 10% per annum over the next five years. Australia is currently a small supplier. Austrade, Food South Australia and a number of industry representatives have also been involved in developing the trading relationship.

Barakat has been involved in meat sales since the end of January 2004. Seafood will be launched into the Dubai market by the Minister for Agriculture, Fisheries and Forestry

Warren Truss participating in the launch during his Middle East visit in April/May 2004. Other food products will be progressively launched until September 2004.

This project's objectives go beyond selling Australian food products – it seeks to establish a new entry point into one of the most lucrative markets in the world, and demonstrate to international markets Australia's capability of reliably providing high quality food into discerning high value world markets. One of the key benefits of this project will be its "demonstration effects" – that Australia is serious about trade with the Middle East, building our trading relationships, and demonstrating the commitment from various industry players in the food chain and from the Australian and State governments to making such projects a success.

## b) Dairy

Dairy products, traditionally made from sheep and goats' milk, are a staple food in the Gulf States. The majority of domestically produced milk is utilised for drinking and cultured dairy products. Production of more highly processed dairy products is low, with imports meeting demand.

The Gulf States mainly source dairy imports from the EU, New Zealand, Australia and the United States. The Gulf States' share of Australian dairy exports in 2002-03 was nearly 10% of total exports, valued at around A\$253 million.

**Table 6: Dairy Exports to the Gulf States Volume (tonnes) and Value (\$Am)**

	Cheese (tonnes)			SMP & WMP (tonnes)			Butter/Butter Oil (tonnes)		
	00/01	01/02	02/03	00/01	01/02	02/03	00/01	01/02	02/03
<b>Saudi Arabia</b>	16,296	17,421	14,839	13,683	14,054	12,297	4,540	5,986	5,851
<b>U.A.E</b>	2,733	2,717	2,789	3,820	4,250	3,817	4,537	3,895	2,761
<b>Kuwait</b>	2,329	2,783	2,719	3,637	4,628	2,575	1,377	2,329	1,346
<b>Oman</b>	587	629	597	4,596	7,671	5,252	823	983	507
<b>Bahrain</b>	1,025	964	1,086	323	0	562	228	420	592
<b>Iran</b>	0	0	0	0	0	0	2,481	3,784	3,429
<b>Qatar</b>	345	523	384	0	0	0	0	0	0
<b>Total of Gulf States</b>	<b>23,315</b>	<b>25,037</b>	<b>22,414</b>	<b>26,059</b>	<b>30,603</b>	<b>24,503</b>	<b>13,986</b>	<b>17,397</b>	<b>14,486</b>
	Other (tonnes)			Total (tonnes)			Total Value (\$Am)		
	00/01	01/02	02/03	00/01	01/02	02/03	00/01	01/02	02/03
<b>Saudi Arabia</b>	1,153	1,015	1,655	35,672	38,476	34,642	182.1	219.8	143.9
<b>U.A.E</b>	624	188	536	11,714	11,050	9,903	48.8	45.8	36.2
<b>Kuwait</b>	108	84	75	7,451	9,824	6,715	37.1	46.8	34.1
<b>Oman</b>	448	310	348	6,454	9,593	6,704	25.8	33.4	18.8
<b>Bahrain</b>	109	109	178	1,685	1,493	2,418	9.4	8.7	8.8
<b>Iran</b>	0	80	37	2,481	3,864	3,466	6.1	9.4	7.2
<b>Qatar</b>	54	150	169	399	673	553	3.6	5.1	3.9
<b>Total of Gulf States</b>	<b>2,496</b>	<b>1,936</b>	<b>2,998</b>	<b>65,856</b>	<b>74,973</b>	<b>64,401</b>	<b>312.9</b>	<b>369.0</b>	<b>252.9</b>

Source: ABS

### Saudi Arabia

Saudi Arabia has relatively low import tariffs on dairy products. Saudi Arabia is Australia's fourth most valuable dairy export market, with exports valued at \$144 million in 2002-03 (6% of total Australian dairy exports). Cheese exports dominate the

trade at around \$99 million in 2002-03, making it Australia's second largest cheese market after Japan.

Australia was the third largest exporter of dairy products to Saudi Arabia in 2002 with an 18% market share, after the EU (52%) and New Zealand (24%). Saudi Arabia is an important world market for Whole Milk Powder (WMP), with WMP accounting for 37% of the value of Saudi Arabia's dairy imports. Cheese was the second most important dairy product imported by Saudi Arabia, accounting for 29% of the value of total dairy imports. The EU, whose subsidised cheese exports account for more than 75% of the market, dominates this market.

As Table 3 demonstrates, Saudi Arabia's domestic dairy industry has been able to supply a steadily increasing share of the country's dairy products consumed in recent years – with production being around 980,000 tonnes per annum in 2003. The dairy-farming sector is well developed and becoming more modernised, with the main constraint being water availability.

Saudi Arabia's dairy companies tend to focus on the supply of fresh dairy products for both the local market and for export to neighbouring Gulf States. It is estimated that around 75% of Saudi Arabia's annual fresh milk production is exported to other Gulf States as well as to Jordan, Syria, Lebanon, Yemen and beyond.

#### United Arab Emirates and Kuwait

The UAE and Kuwait were ranked as Australia's 18th and 19th largest dairy export markets by value in 2002-03. Milk powders, cheese and butter products are the major exports. Both the UAE and Kuwait have domestic dairy industries which supply a small proportion of their market needs, with Saudi Arabian imports of mainly fresh dairy products beginning to overtake traditional EU dominance in this market sector. The EU, Australia and New Zealand are the major dairy exporters to these two countries.

#### Oman, Bahrain, Iran and Qatar

These four markets are the least developed of the Gulf States, with sales by Australian companies predominantly conducted as spot sales rather than through long term contracts. In 2002-03, dairy exports to Oman were \$A18.8m, \$A8.8m to Bahrain, \$A7.2m to Iran and \$A3.9m to Qatar. Levels of imports tend to fluctuate to these Gulf States and are affected by local conditions such as drought.

Sales of butter and butter oil to Iran have been slowly increasing over the past three years. This growth is expected to continue due, in part, to trade routes being re-established to the central Asian republics via Iran.

### **c) Grains (barley, wheat, pulses, rice)**

#### Barley

Australian barley is exported to all Gulf States markets, with 1,661,907 tonnes of feed barley being exported to these markets from Australia in 2002 (2003 data is not available for confidentiality reasons). Saudi Arabia is the biggest importer of feed barley in the world and is a very important market for Australia.

**Table 7: Australian Barley Exports to Gulf States (Tonnes)**

	Bahrain	Iran	Kuwait	Oman	Qatar	Saudi Arabia	UAE
1998	44	0	100,407	18,678	11,000	713,643	83,532
1999	0	0	165,500	29,910	9,915	380,834	167,668
2000	306	0	80,501	19,575	18,620	170,233	107,190
2001	110	166,218	261,933	52,110	38,643	692,509	143,668
2002	44	52,500	172,617	38,500	8,150	1,228,677	161,419
2003	unavail. <sup>2</sup>	unavail.	unavail.	unavail.	unavail.	unavail.	10,431
Avg '98-2002	101	43,744	156,192	31,755	17,266	637,179	133,095

Source: ABARE Grains Trade Statistics

### Wheat

The Gulf States are very important markets for Australian wheat, with around 3 million tonnes of Australian wheat and flour exported to the Gulf States in 2001-02 and 1.4 million tonnes in 2002-03. As mentioned previously the value of exports of wheat are not separately available in the statistics. Table 8 – which is obtained from the ABARE Grains Trade Statistics publication – provides figures on the volumes of wheat exports to the Gulf States for the six most recent years, and averages over the period.

**Table 8: Australian Wheat (including flour) Exports to Gulf States (Tonnes)**

	Bahrain	Iran	Kuwait	Oman	Qatar	Saudi Arabia	UAE
1997-98	37,000	579,000	177,000	282,000	36,000	0	289,000
1998-99	21,000	1,663,000	219,000	248,000	61,000	0	519,000
1999-00	23,000	1,520,000	132,000	300,000	22,000	0	462,000
2000-01	44,000	2,352,000	180,000	136,000	28,000	0	399,000
2001-02	0	2,418,000	230,000	114,000	0	0	226,000
2002-03	0	1,064,000	175,000	27,000	0	0	142,000
Avg 97-98 to 02-03	101,000	1,599,000	186,000	185,000	25,000	0	339,000

Source: ABARE Grains Trade Statistics

A broad indication of values can be obtained from the AWB Ltd average price per tonne from all its international wheat sales for the respective years (as contract prices will vary between countries, and often between different shipments to the same country, this can only provide an indicative figure). Using the average export price of \$A281.40 per tonne in 2001-02 and \$A254.10 per tonne in 2002-03, and applying these to the total volumes in Table 8 provides rough estimates of the value of wheat exports to the Gulf States of around \$800 million for 2001-02 and around \$350 million in 2002-03.

### Pulses

The Middle East is a significant market for Australian pulses in most years. While Egypt is the principal destination for pulses from Australia, Saudi Arabia and UAE are both substantial markets for faba beans, lentils, chick peas and field peas. Product exported to these countries is either used for domestic consumption or, on occasions, is re-exported to other countries in the region either in the same form or following further processing. Accurate statistics are difficult to obtain, in part because of confidentiality reasons, and exports fluctuate significantly because of the price sensitivity of demand,

<sup>2</sup> Figures are unavailable due to 'time-lags' in data collection



production levels in Australia and the availability of pulses from other exporting countries. In a normal (non drought) year, however, significant amounts of pulses would be shipped to the Gulf States, with values of tens of millions of dollars.

Saudi Arabia has also been a substantial market for Australian pulses in the past. Approximately 25 -30,000 tonnes of faba beans and smaller quantities of chick peas are still exported to Saudi Arabia annually. As a result of the "Vetch Lentil Substitution" scandal<sup>3</sup> of the early 1990s, imports of Australian lentils were banned in Saudi Arabia. Pulse Australia, the peak industry body for the pulse industry, in conjunction with AQIS, has been seeking to re-open the market for several years as exports of lentils to Saudi Arabia has considerable growth potential. Saudi Arabia has recently agreed to lift the ban once an agreement outlining import guidelines for the trade to take place has been agreed with Australian industry. DAFF sees a re-opening of the lentil trade with Saudi Arabia as an important priority.

### Rice

SunRice has been trading with Gulf Cooperation Council (GCC) markets for over 20 years, and strong relationships have been established with leading distribution companies across the region. Australian rice currently occupies a market leadership position and competes in the premium price niche market which is orientated primarily to expatriates and guest workers (mainly from the Philippines).

Although separate data on rice exports for most Gulf States are not available for recent years due to confidentiality reasons, currently the Australian rice trade with the GCC is estimated at A\$32 million per annum.

**Table 9: Australian Rice Exports to Gulf States (Tonnes)**

	Bahrain	Iran	Kuwait	Oman	Qatar	Saudi Arabia	UAE
2002	unavailable	unavailable	unavailable	unavailable	unavailable	unavailable	unavailable
2003	unavailable	unavailable	unavailable	unavailable	unavailable	1,500	14,480

Source: ABARE Crops Trade Statistics

### **d) Sugar**

Much of the data on Australian sugar exports to the Gulf States for recent years is not yet available. Table 10 summarises the available data:

**Table 10: Australian Sugar Exports to Gulf States (Tonnes)**

	Bahrain	Iran	Kuwait	Oman	Qatar	Saudi Arabia	UAE
2002	unavailable	unavailable	unavailable	unavailable	unavailable	unavailable	166
2003	unavailable	unavailable	672	unavailable	35	unavailable	636

Source: ABARE Crop Trade Statistics

<sup>3</sup> Saudi Arabia placed a ban on all lentils from Australia following incidents in 1992, in which an Australian exporter was implicated in the misrepresentation of vetch as 'lentils'. Since 1992, Australia has taken a number of steps to ensure that consignments of both lentils and vetch are adequately described when they leave Australia. In 1999, both lentils and vetch were made prescribed 'grains' under the *Export Control Act 1982* to ensure that all consignments were inspected prior to leaving Australia.

### United Arab Emirates

Australia supplies some refined sugar to the UAE. There is only one sugar refinery in the UAE, located in Dubai. The refinery has capacity to refine over 1.0 million tonnes per annum, however, Australia has not supplied raw sugar to the refinery for over four years, as the net market returns have been insufficient to justify the trade. The refiner sources the majority of its supply under large forward deals from Brazil.

### Iran

Iran usually imports around 1.0 million metric tonnes per annum from all sources, of which around 600-800,000 tonnes is raw sugar, with the balance being refined sugar. (In 2002, imports were 818,000 tonnes of raw sugar and 156,000 tonnes of refined sugar.) Australian raw sugar sales are viewed on a spot 'opportunistic' basis, and are largely driven by net returns available at the time.

### Saudi Arabia

There is only one sugar refinery in Saudi Arabia, and no domestic sugar production. Australian raw sugar has a favourable reputation with the sole refinery in Saudi Arabia as a high quality, reliable supplier. Australia currently supplies a high quality raw sugar under a one-year forward block arrangement, and also identifies spot sales on a returns-driven basis as they arise throughout the year.

## **e) Horticulture (Fruit and Vegetables)**

While there are no major single Middle Eastern markets for Australian horticultural produce, collectively they make a reasonably important market (4-5% of horticultural exports go to the Gulf States). As Australia is counter-seasonal to Northern Hemisphere production, Australia can supply fresh fruit and vegetables into the Middle East during the "off-season". This market also achieves higher prices than the higher volume export markets of Hong Kong, Singapore and Malaysia. Because of their relative proximity to Middle Eastern markets, Western Australian producers have a geographic advantage over their Eastern State counterparts.

**Table 11: Horticulture Trade with the Gulf States (2003)**

Country	Exports (\$Am)	Imports (\$Am)
Bahrain	1.4	unavailable
Iran	unavailable	10.0
Kuwait	1.5	unavailable
Oman	0.3	unavailable
Qatar	0.5	unavailable
Saudi Arabia	5.0	0.1
United Arab Emirates	12.5	0.1

Current annual Australian exports of horticultural produce (fresh and processed) to the Gulf States are around \$ 21.2m (see Table 11).

Over 50% of Australia's horticultural exports to the Gulf States go to the UAE. No particular commodity dominates the trade, with a wide range of produce being traded. The UAE, particularly Dubai, is used as a trans-shipment point for other Middle Eastern markets. Iran prohibits the importation of fresh fruit and potatoes.

Some horticultural industries see significant potential for expansion of exports to the Gulf States, with, for example, Horticulture Australia Limited (which services the research and development and marketing needs of the horticulture industry) recently commissioning a study of market opportunities in the region for the summerfruit (peaches, nectarines etc) industry.

Unlike most agricultural products, Australia does import small amounts of horticultural produce (fresh and processed) from the Gulf States – with around \$10m of produce imported in 2003. Virtually all imports from the Gulf States are from Iran, principally dried grapes, dried figs and pistachio nuts.

South Africa, which also is counter-seasonal to Northern Hemisphere production, is a major competitor to Australia's horticulture exports in the Gulf States.

#### **f) Fisheries**

At present Australian seafood exports to the Middle East are negligible – figures for individual countries are not sufficiently significant to appear as separate items in the ABS database.

However, a number of affluent Middle Eastern countries are regarded as having potential as niche importers of high value seafood. As mentioned previously, the NFIS's Efficient Food Service Project will include a number of seafood products - including rock lobster, oysters, prawns and finfish – to be targeted at Dubai's five star hotels and palaces.

#### **g) Forestry**

Australia's only significant forest and forest products trade in 2002-2003 with any of the Gulf States was in paper manufactures to the UAE, with a value of \$257,000.

#### **h) Meat and Livestock**

The most important markets for live sheep and goats, both numbers and value, are in the Middle East. These markets also buy some live cattle (although Asian markets dominate Australia's overall live cattle trade). In contrast, there was less demand from Gulf States markets for beef and sheepmeat. Table 13 provides averages for red meat and livestock exports to these markets for the past six years.

Strong seasonal variations are evident in the export of sheep, cattle and goats. Exports of sheep tend to peak in December and January immediately before the Haj festival in the Middle-East markets, with cattle exports reflecting seasonal conditions in northern Australia and peaking during the drier winter months.

Livestock exports are particularly important to the economies of some regions of Australia, in particular the sheep growing areas of Western Australia and the cattle regions of northern Australia. About 50% of Western Australia's sheep turnoff goes to live export. This is reflected in the dominance of Fremantle as a port of loading for sheep, accounting for over 55% of all sheep exported from Australia.

##### Live Sheep Exports

The value of Australian live sheep exports increased significantly over the period since 1990, from \$67m in 1990 to \$409m in 2002, before falling again to \$342m in 2003 (see Table 12).

- The increase over the period to 2002 reflects increases in both volumes and price. Volumes increased significantly in the early 1990s (from 3.3m in 1990 to, for example, 5.3m in 1993), but since then the increase in values has been mainly driven by price increases (from \$26 per head in 1993 to \$67 per head in 2002).
- As Tables 12 and 13 indicate, the Middle East imported the vast majority of sheep exported over the past decade, with Saudi Arabia and Kuwait being the most significant markets in 2003 (around 1.4 to 1.5m). Four of the next five biggest markets in 2003 were also Gulf States, with Jordan, the third largest market, being the exception, and Iran the only Gulf State not in the top 10 markets.

**Table 12: Australia's Top 10 Live Sheep Markets – Ranked by Volume (Selected Years Since 1995)**

2003			2002			2001		
COUNTRY	HEAD	A\$M	COUNTRY	HEAD	A\$M	COUNTRY	HEAD	A\$M
Kuwait	1,498,537	104.89	Saudi Arabia	1,873,041	127.50	Saudi Arabia	2,147,950	121.95
Saudi Arabia	1,411,195	103.80	Kuwait	1,569,807	100.95	Kuwait	1,539,700	78.85
Jordan	498,999	34.95	Jordan	582,617	38.90	UAE	681,492	33.97
Bahrain	410,508	28.84	UAE	466,421	29.79	Jordan	542,366	28.40
Oman	258,967	18.60	Bahrain	385,878	25.37	Oman	487,484	26.14
UAE	225,313	15.59	Oman	352,794	23.79	Bahrain	388,172	20.07
Qatar	180,964	13.04	Qatar	282,348	20.70	Qatar	308,084	16.36
Israel	116,409	7.96	Israel	243,127	16.57	Egypt	264,332	13.22
Eritrea	56,000	4.50	Egypt	139,285	9.14	Israel	195,752	10.25
Malaysia	22,470	1.32	Mexico	58,547	4.54	Mexico	112,783	9.52
Sub Total	4,679,362	333.50	Sub Total	5,953,865	397.25	Sub Total	6,668,115	358.73
Remainder	62,865	8.66	Remainder	109,058	12.19	Remainder	150,135	7.67
<b>Total</b>	<b>4,742,227</b>	<b>342.15</b>	<b>Total</b>	<b>6,062,923</b>	<b>409.44</b>	<b>Total</b>	<b>6,818,250</b>	<b>366.40</b>
<b>Top 10</b>	<b>99%</b>	<b>97%</b>	<b>Top 10</b>	<b>98%</b>	<b>97%</b>	<b>Top 10</b>	<b>98%</b>	<b>98%</b>
1999			1997			1995		
COUNTRY	HEAD	A\$M	COUNTRY	HEAD	A\$M	COUNTRY	HEAD	A\$M
Kuwait	1,249,714	47.15	UAE	1,700,460	62.10	UAE	1,638,149	60.00
Jordan	1,067,678	35.38	Kuwait	1,040,486	38.75	Jordan	1,472,427	57.19
UAE	975,691	34.51	Jordan	657,429	24.62	Kuwait	1,146,328	40.61
Bahrain	465,405	15.13	Oman	650,050	23.97	Oman	527,950	19.90
Oman	424,371	17.07	Bahrain	381,200	13.40	Qatar	401,279	15.23
Qatar	281,208	13.43	Qatar	369,977	14.01	Bahrain	345,186	12.37
Israel	202,238	6.78	Mexico	166,868	7.69	Egypt	93,000	3.55
Egypt	164,054	5.95	Egypt	55,209	2.08	Yemen	53,000	1.93
Mexico	102,204	3.55	Lebanon	51,752	1.91	Libya	40,988	1.37
Lebanon	61,271	2.06	Libya	38,022	1.29	Lebanon	38,670	1.53
Sub Total	4,993,834	181.01	Sub Total	5,111,453	189.82	Sub Total	5,756,977	213.68
Remainder	31,945	2.67	Remainder	55,272	2.76	Remainder	125,274	5.60
<b>Total</b>	<b>5,025,779</b>	<b>183.68</b>	<b>Total</b>	<b>5,166,725</b>	<b>192.58</b>	<b>Total</b>	<b>5,882,251</b>	<b>219.28</b>
<b>Top 10</b>	<b>99%</b>	<b>99%</b>	<b>Top 10</b>	<b>99%</b>	<b>99%</b>	<b>Top 10</b>	<b>98%</b>	<b>97%</b>

(Source: ABS)

- From the late 1970s until the trade was suspended in 1990 Saudi Arabia typically imported about 3.3 million live sheep annually. During that period Saudi Arabia emerged as Australia's largest and most important export market absorbing almost 50% of our total exports. Trade recommenced in 2000 with 640,000 head, averaged

two million in 2001 and 2002 and was suspended again in August 2003 at which time it had reached 1.4 million sheep for the year.

- From 1990 (when the live animal trade with Saudi Arabia was suspended) up to and including 2000 (when exports to Saudi Arabia resumed) other Middle Eastern countries imported significantly more live sheep.
  - Since 1992 Kuwait has consistently imported over 1 million live sheep from Australia, reaching a peak of nearly 1.6 million head in 2002, valued at \$100 million. With the suspension of live sheep trade with Saudi Arabia in August 2003, Kuwait has again become Australia's largest live sheep market.
  - Predominantly due to cross-border trade with Saudi Arabia, trade in live sheep to the UAE underwent sustained growth since 1991, becoming Australia's largest market for live sheep for a time until it was overtaken by Kuwait in 1998.
  - In 1995 it was estimated that more than 800,000 Australian live sheep exported to other Middle Eastern countries were slaughtered and re-exported to Saudi Arabia as sheepmeat.

#### Other Live Animal Exports

The value of Australian *live cattle* exports has increased very significantly over the period since 1990, from \$55m in 1990 to \$610m in 2002. The importance of the Middle East market for live cattle is, however, much less pronounced than for live sheep, with the top four markets being in Asia in 2003. Israel and Jordan were Australia's fifth and sixth most important live cattle markets with 5.6% and 3.0% of exports respectively. The only Gulf State in the top 10 markets in 2003 was Saudi Arabia, at ninth, with around 16,000 cattle or 2.1% of Australian cattle exports. The UAE (4,700 or 0.6%) and Kuwait (4,100 or 0.5%) also imported cattle in 2003.

- Live cattle were not normally shipped in large numbers to Saudi Arabia. However, following the BSE outbreak in Europe shipments began in 2001 with 20,800 head and 54,000 head in 2002, reaching about 16,000 head before being suspended in August 2003.

**Table 13: Red Meat and Livestock Exports - yearly average from 1998 to 2003**

Gulf States	live sheep (head)	live cattle (head)	live goat (head)	lamb (tonne)	mutton (tonne)	beef (tonne)
Bahrain	405,000	300	-	60	360	200
Iran	0	0	0	0	300	1,700
Kuwait	1,461,000	3,500	740	100	2,500	1,500
Oman	421,000	100	0	180	2,670	140
Saudi Arabia	1,012,000	15,200	16,300	2,160	22,400	2,600
Qatar	288,000	400	0	120	1,500	430
UAE	741,000	2,000	4,600	6,900	6,000	1,600
Total Gulf States	4,328,000	21,500	26,980	9,520	35,730	8,170

The *export of live goats* is still relatively limited compared with sheep and cattle, with the major markets being Malaysia and Saudi Arabia. Other markets include China, the Republic of Korea and the United Arab Emirates. The total number of goats exported in 2002 was 135,532 valued at A\$10 million.

Live goat shipments to Saudi Arabia were affected by the live sheep restrictions. When trade in live sheep recommenced in 2000, shipments of goats were also made: 24,000 head in 2001, 60,000 head in 2002 and 14,000 head by August 2003.

### Sheepmeat Trade

Over the period from 1990 to 2002 Australia's exports of sheepmeat to the Middle East have risen from \$74 million (43,000 tonnes) to \$211 million (63,500 tonnes). In 2002 the Gulf States' share of the Middle East shipments was \$170 million (80%) or 49,700 tonnes. In relation to individual markets:

- Since 2001 *Saudi Arabia* has become Australia's largest market for mutton, edging out the US and South Africa and is valued at \$88 million. Saudi Arabia accounts for 18% of Australia's total mutton exports. Saudi Arabia is also a significant destination for Australian lamb (worth \$8.5 million in 2003).
- Despite a ban on the product for a period from late 2001 (lifted in August 2003), Saudi Arabia is a major market for Australian offal, currently valued at around \$6 million.
- After Saudi Arabia, the *UAE* is the next largest market for sheepmeat in the Middle East. Exports to the UAE increased from 10,800 tonnes in 1991 to around 13,000 tonnes for the past 10 years (currently split evenly between mutton and lamb). In 2002 the exports were valued at \$55 million.
- Sheepmeat exports to *Oman* have increased slightly over the past 10 years from about 2,600 tonnes valued at \$4.2 million to about 3,000 tonnes valued at \$10.5 million.
- Exports of Australian sheepmeat to *Kuwait* have recently been around 2,500 tonnes valued at \$10 million increasing from a base of 1,000 tonnes valued at \$2.5 million in 1991.
- Sheepmeat exports to *Qatar* enjoyed a steady increase from 687 tonnes (valued at \$1.2 million) in 1991 to nearly 2,000 tonnes (valued at \$6 million) in 2002.
- Exports of sheepmeat to *Bahrain* have been sustained at a low but steady level over the past 10 years, averaging about 360 tonnes, and valued at \$1.2 million a year.
- Trade in red meat with *Iran* has been limited since 1992-93, with around 10,000 tonnes of beef and 2,000 tonnes of mutton in aggregate exported during 1998 and 1999 the only significant exports.

### **i) Agriculture Fibres**

Wool exports to the Gulf States are limited with Iran being the only country to figure among the top 50 markets for Australian wool, with around 0.3% of our total exports during the current financial year.

The Gulf States are not significant markets for Australian raw cotton. Small quantities of Australian raw cotton have been shipped to Bahrain and Saudi Arabia over the period 1997-2001. In 2001 these markets were ranked 22nd and 30th respectively in order of importance.

### **3. Trade Impediments and Possible Future Opportunities**

The following table summarises some impediments to trade in agricultural products between Australia and the Gulf States, and identifies possible future opportunities for agricultural products as a whole, or for individual agricultural commodities:

Agricultural Commodity	Country/Countries	Impediments to Trade/Opportunities
All	GCC, or individual Gulf States	Australia is pursuing an economic dialogue with the GCC countries. This dialogue will look at options for closer engagement between Australia and the GCC, including a framework economic agreement and, possibly, an Australia-GCC FTA. Possible FTAs or other agreements on closer economic integration with the GCC or with individual Gulf States would have the potential to expand export opportunities for selected DAFF portfolio industries.
All	Individual Gulf States	Increasingly bilateral agreements such as Memoranda of Understanding are being signed between Gulf States and Australian States and Territories. Such agreements have the potential to facilitate trade between individual States and the Gulf States.
All	Saudi Arabia	<p>Saudi Arabia is seeking WTO accession, and is therefore undergoing the WTO accession process, which involves a scrutiny of the country's economic and trade policies that have a bearing on WTO agreements. Australia settled its bilateral issues with Saudi Arabia three years ago, and a number of concerns relating to non-tariff measures – including the ban on imports of Australian lentils – have now been resolved within the WTO accession process.</p> <p>Saudi Arabian WTO membership would further expand bilateral trade opportunities and enhance the scope for Australia and Saudi Arabia to work together more closely to promote global trade liberalisation within the multilateral trade framework.</p>
All	Saudi Arabia	Since early 2002 DAFF has been actively negotiating an MoU on SPS Cooperation with the Saudi Arabian Ministry of Commerce as a means of establishing a clear framework with which to address current, and new and emerging, issues in this market. A draft of a proposed MoU was passed to officials within the Saudi Ministry of Commerce in late 2003, and has been progressed during recent officials' visits to the region during early 2004.
Meat and meat products	All Gulf States	Clarification of import protocols and other requirements relating to the handling and transportation of meat and meat products will facilitate these exports to Gulf State markets. Currently the level of detail specified varies significantly between countries. The five GCC members other than Saudi Arabia will accept product prepared to the new Australian Standard export registered (Tier 1) establishments, which has been beneficial for Australian exporters.



Meat and meat products	All Gulf States	The GCC recently commissioned Saudi Arabia to prepare new GCC rules and regulations for import of meat and meat products. There is concern among some exporters that these may reflect the more stringent Saudi standards and impact negatively on, or restrict access for, Australia meat exports to the other GCC members countries.
Beef	Saudi Arabia	Saudi authorities have lifted a 20-year restriction on Indian beef, which is expected to compete strongly in price sensitive market sectors (bulk catering and manufacturing). These sectors have typically been supplied by lower valued protein sources from Australia and other suppliers.
Red meat	All Gulf States	The Gulf States are investigating how to address the accreditation of halal products around the world. There is a danger that current halal accreditation schemes in Australia may not be recognised. It is proposed an Australian Red Meat Industry Halal Advisory Committee be established to enhance and promote the integrity of Australian halal red meat. The desired outcome is to have the Australian Government Supervised Muslim Slaughter program and the integrity of Islamic organisations that provide halal services to the red meat industry, processors and Government, recognised by the Gulf States.
Wheat, Barley	Saudi Arabia	In late 2003 Saudi Arabia announced a reduction in its Government Purchase Price (GPP) for wheat from US\$400 to US\$266.67 from the 2004/05 crop, the second price cut in the past 10 years following a June 1995 reduction from US\$533 to US\$400. The USDA's Global Agriculture Information Network (GAIN Report No SA4003) indicates that most small local producers will not be able to produce their assigned quotas since their production cost is very close to the GPP. Local farmers have not been attracted to barley production in the past few years and have only been able to produce 100,000 tonnes of the 1 million tonne production quota when faced with a similar price for barley. The Report speculated that this measure was in response to concerns expressed in WTO accession discussions by some wheat producing countries, and to assist it to privatise its flour mills. This could open up further market opportunities for efficient world competitive wheat producers such as Australia.

Sugar	Iran, Saudi Arabia	Iran is seeking to become self sufficient in sugar production, and Saudi Arabia has almost doubled the refining capacity of its USC refinery recently. Significant tariffs are currently levied on sugar in these two countries with Iran levying \$193/tonne on raw sugar and \$50/tonne on white sugar, and Saudi Arabia imposing a duty of 20 per cent on white sugar until 2005. While Australian industry would like to see these imposts removed, Australian product would still need to compete with 'subsidised' sugar from producers such as the European Union.
Pulses	Saudi Arabia	As a result of the "Vetch Lentil Substitution" scandal of the early 1990s, imports of Australian lentils were banned in Saudi Arabia. Pulse Australia, the peak industry body for the pulse industry, in conjunction with AQIS, has been seeking to open the market over the last few years as exports of lentils to Saudi Arabia have the potential to increase substantially. Saudi Arabia has recently given a commitment to lift the ban once an agreement outlining import guidelines for the trade to take place has been agreed with Australian industry. Negotiations are continuing on the import guidelines.
Barley	All Gulf States	The trade in barley proceeds very smoothly with good relationships in place between buyers in the Gulf States and Australian exporters. The Australian industry is optimistic about the future outlook for trade.
Rice	All Gulf States	Saudi Arabia is the predominant and priority rice market in the foreseeable future in the GCC, and it is envisaged that it is likely to remain so. The current demographic skew to children means that snack based foods suitable for children provides opportunities for growth in these areas. There will be possible consolidation of distribution and manufacturing across the GCC as the GCC becomes a more unified trading block. There has already been a standardisation of labelling requirements over time for the GCC markets. There are no import licences or duties required in relation to rice imported into the GCC from Australia, and the documentation required for rice exports to the GCC is not onerous.
Food	All Gulf States	As part of the National Food Industry Strategy's <i>Technical Market Access Program</i> , DAFF is actively involved in the facilitation of trade to Middle East markets, including the Gulf States, by addressing, in consultation with industry, technical impediments to Australian agri-food products in international markets. This has helped secure better access for Australian exports through the negotiation of import protocols and clearance

		<p>procedures. Gulf States protocols and procedures particularly affect Australian bulk products exports such as meat and live animals as well as field crops and horticultural products to the Middle East region.</p>
Food	All Gulf States, but especially the UAE	<p>The NFIS sees significant potential for the current agricultural commodity exports to be supplemented by high quality exports of food targeted at premium markets. This market niche will, at least initially, be largely concentrated in markets in Dubai because the cost and frequency of airfreight is a major determinant of a successful food trade.</p> <p>In the case of the project involving Barakat Vegetable and Food Company, Emirates Airlines has been closely involved in the development of the trading arrangements. The transport situation may be improved if other airlines also became more involved with Middle East trade.</p> <p>In terms of impediments to trade, NFIS Ltd believe could be some benefit from Australia's market access regulatory authorities working more closely with their Middle Eastern counterparts to overcome regulatory issues.</p>
Forestry	All Gulf States	<p>Given Australia's expertise in dryland forestry and areas of similar climatic conditions, there could be opportunities for Australian State agencies, research bodies and private enterprises to foster co-operation with the Gulf States. For example, Iran has expressed interest in the past in participating in forest-related development cooperation activities with Australia.</p>



## **4. Role of DAFF in the Australia – Gulf States Relationship**

### **DAFF's Role in Trade Facilitation**

DAFF is actively involved in maintaining and improving international trade and market access opportunities for its portfolio industries. A priority for DAFF is assisting industries to become more internationally competitive through establishing scientifically-based quarantine policies, providing effective technical advice and export certification services, entering into negotiations with key trading partners, participating in multilateral forums (including the World Trade Organisation (WTO) and the United Nations' Food & Agriculture Organization (FAO)) and international sanitary and phytosanitary (SPS) standard-setting organisations (the Codex Alimentarius Commission (Codex), the International Plant Protection Convention (IPPC), the Office International des Epizooties (OIE)), and collaborating with portfolio industries and exporters.

A major day-to-day priority for DAFF is the identification of technical barriers to trade in overseas markets – such as over-restrictive import conditions on Australia's agricultural and food exports. DAFF, in consultation with DFAT, other Australian Government agencies and industry seeks to remove these barriers to trade through:

- Bilateral representations at Ministerial and senior officials levels including through DAFF representatives located in Australian missions in Beijing, Brussels, Rome, Seoul, Tokyo, Washington and the Australian permanent delegation to the Organisation for Economic Cooperation and Development (OECD) in Paris.
- Supporting programs developed through the National Food Industry Strategy Ltd including the AQIS Technical Market Access Program targeted at reducing or eliminating non-tariff barriers to trade in Australian primary products and, in particular, food.
- Contributing to whole-of-government consideration of policy impacting on agricultural trade and international relations.

In addition DAFF provides quarantine protection and technical assessments through:

- AQIS's responsibilities, which include ensuring border quarantine security, issuing import permits and providing export health certification.
- Biosecurity Australia (BA) which protects consumers and animal and plant health, and facilitates trade, by providing sound scientifically-based and cost-effective quarantine policy. BA is responsible for:
  - Import Risk Analyses (IRAs) and assessments of quarantine risks associated with commodity and germplasm imports; and
  - Assisting Australia's export market access program through technical negotiations on export market access issues with overseas trading partners and participation in international meetings and organisations.

### **DAFF's Engagement with the Gulf States**

The Gulf States are a major market for some of DAFF's portfolio industries' exports. While some engagement is associated with whole-of government Joint Ministerial Commission (JMC) meetings coordinated by DFAT, much of DAFF's contact with

corresponding Gulf State agencies arises from bilateral negotiations undertaken to resolve or progress specific bilateral market access issues.

In addition DAFF contributes to Australian engagement with the Gulf States in regional fora including the WTO and FAO, and in international standards setting bodies including Codex, IPPC, and the OIE.

DAFF is currently involved in a number of bilateral market access issues with Gulf States in response to:

- (i) requests for market access to Australia for products from Gulf States; or
- (ii) difficulties faced by Australian exporters in accessing Gulf States markets.

The following section includes a detailed description of an important recent example – live animal exports. This example not only illustrates DAFF's role in managing an important bilateral agricultural trade issue, but also highlights Australia's future policy direction for one of our most important export industries in our trade relationship with the Gulf States.

## **5. Live Animal Export Trade**

### ***Cormo Express Incident***

The so-called “*Cormo Express* incident” of late 2003 began when a consignment on the *MV Cormo Express* departed Fremantle, Western Australia, on 5 August 2003 loaded with around 58,000 sheep destined for Saudi Arabia. A Saudi principal owned the shipment and chartered the vessel from the Dutch owners. The ship sailed under the Philippines flag.

According to the veterinary officer on board by the time it arrived at Jeddah on 21 August 2003 no major health problems had affected the sheep during the voyage and the overall mortality rate was relatively low (544 or 0.94%). He reported the main causes of deaths, as determined by the daily post mortem examinations conducted throughout the voyage, were inanition (failure to eat) and salmonellosis/enteritis.

Notwithstanding this, the Saudi Arabian Ministry of Agriculture rejected the shipment on the grounds that 6% of the sheep were infected with ‘scabby mouth’ (contagious pustular dermatitis), which was above the 5% normal tolerance level for the trade to Saudi Arabia. The Australian veterinarian on board the vessel estimated the incidence of scabby mouth to be 0.35%. Subsequently, the overall health of the sheep was confirmed by the OIE Regional Co-ordinator in the Middle-East.

The vessel departed Jeddah on 21 August 2003. Subsequent negotiations by industry representatives and Australian Government (DAFF, DFAT and officials within various Australian Embassies) representatives with a large number of countries resulted in the sheep being accepted by Eritrea. Unloading began in Massawa on 24 October 2003. At the time they reached Eritrea, the sheep had been on the vessel for 80 days and there had been a total of 5,691 (9.82%) deaths. It was generally accepted that the unexpectedly long duration of the voyage was the critical factor in the high mortalities during the voyage.

Trade in livestock to Saudi Arabia was suspended on 28 August 2003 pending the negotiation of a formal agreement between the Australian and Saudi Governments to ensure that the trade would be managed on a more predictable and transparent basis, and to ensure the safe entry of livestock to Saudi Arabia.

The Australian Government was conscious that the *Cormo Express* incident raised concerns to many Australians regarding the welfare of animals involved in the live animal trade. There was also some controversy surrounding suggestions raised during the incident that the rejected sheep should be returned to Australia.

### **Portland Incident**

A second incident relating to Australian exports of live animals occurred on 19 November when an animal welfare organisation called Animal Liberation claimed in a press release that it had spread pig meat through the Portland feedlot food and water delivery system in an attempt to make the animals unacceptable to the Middle East market. Subsequently, the Victorian Department of Primary Industries found a

substance that appeared to be shredded ham in one paddock containing around 1800 sheep.

The Australian Quarantine and Inspection Service (AQIS) responded to the incident by indicating that an export permit would not be issued for animals held in the feedlots until the Australian Government could be assured that the importing country would accept the consignments. DAFF worked closely with the Victorian authorities and the livestock industry to resolve this matter. Senator Ian Macdonald, Minister for Fisheries, Forestry and Conservation and DAFF officers who were in Rome for the 2003 FAO Ministerial Conference met with representatives of various Middle Eastern countries to obtain assurances on the religious acceptability of the stock.

AQIS subsequently lifted an order preventing the export of the animals and on 5 December the more than 70,000 sheep and several hundred dairy heifers in feedlots at Portland were loaded on the MV *Al Shuwaikh* for Kuwait and the United Arab Emirates.

### **The Keniry Inquiry**

In response to the *Cormo Express* incident the Australian Government commissioned, on 10 October 2003, a review into the livestock export industry. The Review was supported by the Primary Industries Ministerial Council which at its meeting of 2 October 2003 had discussed the *Cormo Express* incident.

The Review was asked to address issues raised by the recent live export incidents in order to guide reforms necessary to assure the future of the \$1 billion live animal export industry. The Terms of Reference of the Review are included as Attachment A. Dr John Keniry was appointed as Chairman of the Review. Other members were Mr Murray Rogers, Professor Ivan Caple, Dr Michael Bond and Mr Lachlan Gosse. Further background on the members of the Review is also included at Attachment A. The Review was supported by a small Secretariat within DAFF. The Review was asked to report to the Government by the end of December 2003.

The Review focused on voyages to the Middle East, but also considered exports of sheep, cattle and goats by sea to other destinations. Submissions were sought in the national press from people interested in, or involved with, the livestock export industry and the terms of reference were widely distributed. The Chair also wrote to 21 industry organisations and animal welfare groups. The Review met with a number of industry and animal welfare organisations in Perth, Canberra, Sydney, Melbourne and Brisbane.

It received 248 submissions expressing a wide range of views on the livestock export industry. Concern for the welfare of animals in the trade was central to most comments, with the majority opposing the trade or advocating that it should be allowed to continue only if the welfare of the animals could be assured.

The Minister for Agriculture, Fisheries and Forestry, Warren Truss, released the Report of the Keniry Inquiry on 8 January 2004. The Executive Summary of the Report is included at Attachment B. A copy of the full report is available on the Australian Government Department of Agriculture, Fisheries and Forestry's website at [www.daff.gov.au/keniry](http://www.daff.gov.au/keniry).



## **Australian Government Response to the Keniry Report**

The Australian Government subsequently responded to the Keniry Report. A summary of the Australian Government's response to the Report is at Attachment C or at [www.daff.gov.au/ministers/truss/releases/04/summary](http://www.daff.gov.au/ministers/truss/releases/04/summary), with further explanation of the Government's responses in a Question and Answer document at [www.daff.gov.au/ministers/truss/releases/04/keniryqa.doc](http://www.daff.gov.au/ministers/truss/releases/04/keniryqa.doc).

The Australian Government's response involves reforms which are aimed at placing the live animal trade with the Middle East region on a more secure and certain footing by, amongst other things:

- increasing Government involvement in regulatory control, including annual licensing, surprise audits and inspections;
- developing a new Australian Livestock Export Code on animal health and welfare which will be referenced in legislation and which will need to be met before shipments can be cleared;
- improving industry quality assurance procedures by requiring exporters to provide attestations of meeting Code requirements along the export supply chain;
- improving risk management and systems management, through, for example special approaches for southern ports in winter involving Code requirements for improvements in stock sourcing (stock to be sourced from local regions, not include high risk animals such as pregnant ewes), and longer preparation and inspection times at the feedlots;
- establishing of a Veterinary Counsellor position at an Australian Embassy in the Middle East region; and
- providing \$1 million a year to improve animal welfare outcomes in the Middle East.

An important aspect of the response to the Keniry report will be efforts by representatives of Government and industry to negotiate Memoranda of Understanding (MoUs) on the trade in live animals with our major live animal markets. These MoUs will aim to clearly set out the conditions under which the trade in live animals can be undertaken in a transparent and efficient basis and in a way that protects the health and welfare of the animals. A broad range of industry representatives have been consulted in the preparation of these MoUs. It is envisaged that these MoUs will include:

- (i) Detailed specification of the health and quality requirements and standards expected by the importing country that would be certified as part of Australia's export approval processes.
- (ii) Specification of other requirements of the trade, including whether consignments must be first port of call or whether split port discharges are permitted (and, if so, under what circumstances).
- (iii) Assurances that shipments that meet the above health and other requirements will be accepted at the port of destination.
- (iv) The establishment of appropriate contingency arrangements (such as a quarantine zone in the importing country in which animals that do not meet the importing country's requirements can be dealt with in an expeditious manner and one which fully protects the welfare of the animals).
- (v) Provision for regular bilateral meetings between technical officials from both countries to discuss issues surrounding the trade.

Officials from DAFF and DFAT and industry representatives have now made two extensive visits to the Middle East region and held discussions with government officials in Saudi Arabia, Kuwait, Jordan and the UAE on these MoUs on the Live Animal Trade. While discussions on these visits have been focussed on the MoUs, there have also been discussions on other bilateral agricultural trade issues with each country, including the scope for further cooperation on bilateral and multilateral issues. DAFF and DFAT officials have also developed relationships with key counterparts in agriculture and other relevant Ministries in each of these countries.

These visits have been part of a broader strategy for DAFF engagement in the Middle East region. Another element of this strategy is the establishment of a Veterinary Counsellor position at an Australian Embassy in the Middle East region. The Counsellor will liaise with, and make representations to, agricultural and health authorities and other relevant government and industry groups in the Middle East on both policy and technical issues relating to trade in agriculture, fisheries, forestry and food products. Such a position would complement the work undertaken by Gulf-based representatives of industry (such as MLA) already established in the region.

If an animal welfare incident were to occur in the future the close relationships developed by DAFF and DFAT officials with key counterparts in agriculture and other relevant Ministries through the officials visits, and the existence of the Counsellor would strengthen the Australian Government's capacity to communicate with relevant government authorities and importing interests in Middle East markets and position Australia to act promptly in response to live animal trade problems.

### **Future Regional Visits**

To implement its strategy for greater engagement with key individuals in the Gulf States, and to build on the momentum generated through the recent visits by officials from DAFF and DFAT and the establishment of a Counsellor (Agriculture) position for the Middle East, Minister Truss will visit the Middle East region in April/May 2004. The visit will be of 12 days duration and will include visits to Kuwait, Jordan, the UAE, Saudi Arabia, Egypt and Israel.

With the Middle East being an increasingly important and expanding market for a range of Australian agricultural products, particularly wheat, live animals, sugar and dairy products, an important aspect of Minister Truss's visit to the region will be to further Australia's commercial interests and to promote good trade relations with the region. The Minister will be accompanied by delegations of Australian business people from a range of agricultural industries during his visit.

In those countries which are important live animal export markets Minister Truss will be seeking to explain to his Ministerial counterparts the Government's response to the Keniry Report, discuss the need to negotiate more assured access arrangements for live animals, and progress the MoUs on the Live Animal Trade which have been the subject of officials' discussions over the past few months.

It is likely that there will be a number of further visits by officials from DAFF and DFAT and industry representatives to the Middle East region to hold discussions with government officials of some or all of the countries already visited by officials and other

Middle Eastern markets for Australian live animal exports with a view to agreeing to MoUs on the Live Animal Trade. This is consistent with a Keniry Report view that there should be agreements with each country setting out the terms under which trade will be conducted. It is likely that the Gulf States Bahrain, Oman and Qatar would be among the countries approached in the next negotiating round along with Israel and Egypt.

In **conclusion**, DAFF's experience in responding to the recent live animal incidents described in this section has reinforced its view on the importance of engagement to resolve bilateral trade issues. It is hoped that the understanding gained through the close engagement with live animal importing countries will be not only secure agreement to arrangements which would put the live animal trade with the region on a more secure and certain footing, but will also build close relationships at all levels of Government in the countries involved which can assist in resolving future issues that arise and benefit the broader trade relationship between our respective countries.

## **ATTACHMENT A: TERMS OF REFERENCE OF THE KENIRY REVIEW AND KENIRY REVIEW MEMBERSHIP**

### **The Terms of Reference of the Review**

The Terms of Reference of the Review were to examine:

- (i) the adequacy of welfare model codes of practice as they apply to the preparation and export of livestock;
- (ii) the adequacy of current regulatory arrangements for the live export trade from farm of origin to ultimate destination;
- (iii) the types of livestock suitable for export, especially ewes;
- (iv) the need for supervision of each export voyage, in a manner that ensures accurate and transparent reporting of the condition of the livestock; and
- (v) the specific factors that contributed to the excess mortalities on the *MV Cormo Express V93* with particular reference to compliance with the requirements of the Saudi Livestock Export Program and associated arrangements for the Saudi market.

The Review was asked to take into account the recommendations of the Independent Reference Group in 2002 and implementation of the Action Plan for the Livestock Export Industry (APLEI) announced in October 2002, which was being progressed through the Livestock Export Industry Consultative Committee (LEICC), and in particular the adequacy of:

- the legislative and administrative arrangements being developed, including industry arrangements for developing and enforcing appropriate standards for livestock exports; and
- risk management strategies necessary to address the health and welfare of animals during an export journey, including measures to ensure the live export industry is able to manage unforeseen events associated with the trade.

### **Review Membership**

#### **Chairman**

**Dr John Keniry**, Chairman of Ridley Corporation; former President of the Australian Chamber of Commerce and Industry and former chairman of the Australian Pesticides and Veterinary Medicines Authority. Member of the NSW Environment Protection Authority.

#### **Members**

**Mr W. Murray Rogers AM**, Chairman of the Quarantine and Exports Advisory Council.

**Professor Ivan Caple**, Professor of Veterinary Medicine and Dean of the Faculty of Veterinary Science at Melbourne University. Chairman of the National Advisory Committee on Animal Welfare.

**Dr Michael Bond**, Assistant Veterinary Director of the Australian Veterinary Association. Former Director of Animal Health in the Western Australian Department of Agriculture and former chairman of the Veterinary Surgeons Board of Western Australia.

**Mr Lachlan Gosse**, sheep and cattle producer.

**Review Secretariat**

**Dr Christopher Branson**, Review Secretary

**Mr Michael Body**

**Ms Beth Winterton**

Additional secretariat services were provided to the Review by Secretariat Australia Pty Ltd

## **ATTACHMENT B: KENIRY REPORT - EXECUTIVE SUMMARY**

On 10 October 2003 the Minister for Agriculture Fisheries and Forestry, the Hon Warren Truss MP, announced a review into the livestock export industry in response to concerns about animal welfare. Members of the Review were Dr John Keniry (Chair), Dr Michael Bond, Professor Ivan Caple, Mr Lachlan Gosse and Mr Murray Rogers.

The Review examined:

- the adequacy of welfare model codes of practice;
- the adequacy of regulatory arrangements;
- the types of livestock suitable for export;
- supervision of voyages to ensure accurate reporting; and
- the factors that contributed to excess mortalities on the *MV Cormo Express* V93.

The Review focused on voyages to the Middle East because of the number of adverse incidents reported in that trade, but also considered exports of sheep, cattle and goats by sea to other destinations.

Submissions were sought in the national press from people interested in or involved with the livestock export industry and the terms of reference were widely distributed. The Chair also wrote to 21 industry organisations and animal welfare groups.

The Review met with a number of industry and animal welfare organisations in Perth, Canberra, Sydney, Melbourne and Brisbane. It received 248 submissions expressing a wide range of views on the livestock export industry. Concern for the welfare of animals in the trade was central to most comments, with the majority opposing the trade or advocating that it should be allowed to continue only if the welfare of the animals could be assured.

### **The livestock export industry**

In 2002, Australia exported about 6 million sheep and 1 million cattle, generating over A\$1 billion in export income. The most important market for live sheep was in the Middle East, with an increasingly significant trade for live cattle from northern Australia into South East Asia.

The livestock export industry provides a valuable alternative market for Australia's livestock producers and is particularly important to the economies of the sheep growing areas of Western Australia and the cattle regions of northern Australia. However the Review noted that the red meat export industry, in both absolute and value-added terms, is significantly larger than livestock exports and that adverse incidents in the livestock export industry may have serious consequences for it.

The Review acknowledged Australian exporters are faced with a range of challenges not ordinarily experienced by other exporting countries that create risks they must assess, and manage, to ensure a positive outcome for an export consignment. It acknowledged that the industry had sought to address these issues through its research and development activities; further, through the concerted efforts of industry and government over the past few years there have been significant

improvements in the trade, including in the welfare and treatment of animals along the whole of the export chain.

However recent incidents which have had unacceptable welfare and mortality outcomes, with the unexpected rejection of the *Cormo Express* shipment being the latest, have attracted widespread criticism of the trade within Australia and internationally.

The Review considered a number of issues that contributed to this, and in particular:

- the current meat and livestock industry structure that was introduced in 1998 and was intended to give greater responsibility to the industry itself and minimise the involvement of government; and
- the policy and regulatory oversight of the industry, which spreads responsibilities for addressing and managing risks and ensuring all requirements are met across a large number of parties, both government and industry.

### **Conclusions**

The Review identified five principles to inform its conclusions and recommendations:

1. The welfare of the animals in the livestock export trade is a primary consideration in all areas of the industry:

- all stages of the livestock export chain, from farm to discharge into the market, must be able to demonstrate that the welfare of the animals has been addressed in its operation.

2. The Australian Government is responsible for protecting the broader interests of the Australian community in the export process by setting clear standards for the export of livestock, administering them firmly and consistently, and for ensuring governance and reporting arrangements in relation to animal welfare during export are transparent:

- Australian livestock export consignments must reliably meet international criteria, importing country requirements and Australian animal health and welfare standards.

3. The Australian livestock industry is responsible for development of the livestock export industry by establishing and managing systems that support the adoption of best practice animal husbandry and commercial practices along the export chain:

- the industry must continue to build its capability so that all participants in the industry are competent and demonstrably operating according to best practice standards and translating that to outcomes consistent with best practice.

4. The livestock export industry is part of the wider Australian meat and livestock industry and the way it operates has implications for the industry as a whole:

- governance standards and structural arrangements applying to the wider industry must apply to the livestock export industry unless there are clear and objective reasons for varying them.

5. The livestock export industry is uniquely and inherently risky because it deals with sentient animals along an extended production chain, from farm to discharge into the market:

- the preparation of an export consignment must recognise the risks at each stage of the chain and an exporter must be able to demonstrate that appropriate systems are in place to ensure the risks have been met in accordance with government regulatory requirements and industry quality assurance systems.

### **Recommendations**

The Review made the following recommendations:

#### **Recommendation 1**

There must be a national standard for livestock exports, the "Australian Code for Export of Livestock", which focuses on the health and welfare of the animals during export and which is

consistent with the Model Codes as they are updated:

- States and Territories should be consulted in the development of the standard and the views of industry and animal welfare groups should be taken into account;
- the standard must recognise the outcomes sought in the export of livestock and take into account the whole process for sourcing, preparing, assembling and transporting animals for export;
- the standard must be directly referenced in the *Australian Meat and Livestock Industry Act 1997* and the *Export Control Act 1982*; and
- an interim national standard must be in place by 1 May 2004 and finalised by 31 December 2004.

#### **Recommendation 2**

Government must be solely responsible in the relevant legislation for granting export licences and permits and enforcing compliance by exporters against the national standard:

- the Government may take into account the views of an industry group on whether a particular exporter has met industry quality assurance standards but must not be constrained by those views in making its decision.

Industry should be responsible for research and development and management of quality assurance systems to support its members translate best practice standards into outcomes consistent with best practice:

- its activities should be funded by compulsory levies.

#### **Recommendation 3**

The criteria for approval of export licences and export permits should be more closely linked in the legislation and include:

- an assessment of the export history of the exporter as well as their related entities;
- for the grant of an export licence, an exporter must be required to demonstrate that they have systems in place to meet the national standard for livestock export; and
- for the grant of an export permit, an exporter must be required to attest that the national standard has been met.



#### **Recommendation 4**

'Third party' veterinarians responsible for the treatment and preparation of animals for export must be directly contracted and accountable to AQIS in the performance of their duties:

- they must be registered with a state veterinary board;
- their responsibilities must be referenced in export legislation with suitable penalties for any breach;
- livestock exporters should be allocated a 'third party' veterinarian by AQIS at the time they advise AQIS that they intend to export; and
- livestock exporters should pay all costs associated with the services of these veterinarians.

#### **Recommendation 5**

A registered and suitably qualified and trained veterinarian should be on board all livestock export ships where the journey would take over 10 days:

- AQIS should randomly nominate at least 10% of other livestock export voyages and a veterinarian should be on those voyages;
- the veterinarian should be required to report directly to AQIS on specified matters including any animal mortalities or morbidity, and any environmental conditions on the ship that might impact on the health and welfare of the animals, including any malfunction of feeding, watering or ventilation systems;
- copies of the veterinarian's report should be made available to industry to enable it to enhance its quality assurance programs; and
- livestock exporters should pay all costs associated with the services of these veterinarians.

Industry should continue to develop its Shipboard Program for stockmen to ensure appropriate knowledge and skills are available on board vessels during a voyage.

#### **Recommendation 6**

There must be a continuation of the current industry investment in rigorous research and development programs on the suitability of different types of livestock for export:

- in the meantime exports should be banned in circumstances where the available evidence indicates that the risks of adverse outcomes are predictably high;
- this would mean the closure of ports such as Portland and Adelaide during those periods of the year when the risks are greatest.

#### **Recommendation 7**

Government and industry must work cooperatively to secure the agreement of a country in the Middle East region to establish an operational quarantine holding facility by the end of December 2004:

- if such a facility is not available by that time, the livestock trade to the region should be reviewed;

- if animals exported from Australia are not unloaded within 48 hours of the ship berthing, they must be moved as quickly as possible to the quarantine facility; and
- the quarantine facility must allow for testing and analysis of animals in the shipment for final determination, access to a robust and transparent dispute resolution mechanism, and quick destruction of the animals if necessary.

The livestock export trade with Saudi Arabia must not resume until there are robust written conditions determined between the governments of Australia and Saudi Arabia which ensure that:

- Saudi Arabia or the Gulf Cooperation Council is involved at an early stage, possibly preembarkation, in approving the health status of the animals;
- testing and analysis of the animals in the shipment at the time of first arrival is transparent and reliable; and
- the animals can be moved to the quarantine holding facility for further determination.

### **Recommendation 8**

A national response system should be established to plan and manage any future livestock export emergency, possibly modelled on AUSVETPLAN.

## Attachment C: Australian Government Response to the Keniry Report

### SUMMARY OF RESPONSE TO REPORT RECOMMENDATIONS

Livestock Export Review Recommendation	Government Response
<p><b>Recommendation 1</b></p> <p>There must be a national standard for livestock exports, the "Australian Code for Export of Livestock", which focuses on the health and welfare of the animals during export and which is consistent with the Model Codes as they are updated:</p> <ul style="list-style-type: none"> <li>• States and Territories should be consulted in the development of the standard and the views of industry and animal welfare groups should be taken into account;</li> <li>• the standard must recognise the outcomes sought in the export of livestock and take into account the whole process for sourcing, preparing, assembling and transporting animals for export;</li> <li>• the standard must be directly referenced in the Australian Meat and Live-stock Industry Act 1997 and the Export Control Act 1982; and</li> <li>• an interim national standard must be in place by 1 May 2004 and finalised by 31 December 2004.</li> </ul>	<p><i>Accept.</i></p> <p>An interim Australian Code for Export of Livestock is under development with the States and will be presented to the Primary Industries Ministerial Council in May 2004</p> <ul style="list-style-type: none"> <li>• with a view to a final Code and Standards being finalised by the end of December 2004</li> <li>• Code is intended to be referenced in legislation</li> </ul>

<p><b>Recommendation 2</b></p> <p>Government must be solely responsible in the relevant legislation for granting export licences and permits and enforcing compliance by exporters against the national standard:</p> <ul style="list-style-type: none"> <li>the Government may take into account the views of an industry group on whether a particular exporter has met industry quality assurance standards but must not be constrained by those views in making its decision.</li> </ul> <p>Industry should be responsible for research and development and management of quality assurance systems to support its members translate best practice standards into outcomes consistent with best practice:</p> <ul style="list-style-type: none"> <li>its activities should be funded by compulsory levies.</li> </ul>	<p><i>Accept.</i></p> <p>The export licensing approval arrangements to be changed so that the assessment as to whether an applicant meets the requirement of competence is undertaken by Government, and not dependent upon an industry accreditation process.</p> <p>In line with industry request, a compulsory levy to be introduced for the purposes of export industry research and development activity.</p>
<p><b>Recommendation 3</b></p> <p>The criteria for approval of export licences and export permits should be more closely linked in the legislation and include:</p> <ul style="list-style-type: none"> <li>an assessment of the export history of the exporter as well as their related entities;</li> <li>for the grant of an export licence, an exporter must be required to demonstrate that they have systems in place to meet the national standard for livestock export; and</li> <li>for the grant of an export permit, an exporter must be required to attest that the national standard has been met.</li> </ul>	<p><i>Accept.</i></p> <p>The requirement to comply with the Australian Code for Export of Livestock will be referenced in legislation and any standards derived from the Code in subordinate legislation.</p> <p>The licensing appraisal will also include consideration of the history of the exporter, and whether the exporter has a risk management system in place to meet the Code and standards.</p>

<p><b>Recommendation 4</b></p> <p>'Third party' veterinarians responsible for the treatment and preparation of animals for export must be directly contracted and accountable to AQIS in the performance of their duties:</p> <ul style="list-style-type: none"><li>• they must be registered with a state veterinary board;</li><li>• their responsibilities must be referenced in export legislation with suitable penalties for any breach;</li><li>• livestock exporters should be allocated a 'third party' veterinarian by AQIS at the time they advise AQIS that they intend to export; and</li><li>• livestock exporters should pay all costs associated with the services of these veterinarians.</li></ul>	<p><i>Accept with modification:</i></p> <p>Veterinary treatments and animal preparation are a normal veterinary function:</p> <ul style="list-style-type: none"><li>• veterinarians performing those functions for the purpose of the export trade to be trained and accredited by AQIS and registered with a state veterinary board, but be contracted by exporters not by AQIS. Exporters will need AQIS approval to use a nominated veterinarian. The responsibilities of these "third party" veterinarians will be referenced in legislation and include a sanctions regime</li><li>• in view of the pivotal role of the inspection and clearance process at feedlots prior to transport to the port for export, AQIS officers rather than "third party" veterinarians to undertake this task.</li></ul>
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<p><b>Recommendation 5</b></p> <p>A registered and suitably qualified and trained veterinarian should be on board all livestock export ships where the journey would take over 10 days:</p> <ul style="list-style-type: none"><li>• AQIS should randomly nominate at least 10 per cent of other livestock export voyages and a veterinarian should be on those voyages;</li><li>• the veterinarian should be required to report directly to AQIS on specified matters including any animal mortalities or morbidity, and any environmental conditions on the ship that might impact on the health and welfare of the animals, including any malfunction of feeding, watering or ventilation systems;</li><li>• copies of the veterinarian's report should be made available to industry to enable it to enhance its quality assurance programs; and</li><li>• livestock exporters should pay all costs associated with the services of these veterinarians.</li></ul> <p>Industry should continue to develop its Shipboard Program for stockmen to ensure appropriate knowledge and skills are available on board vessels during a voyage.</p>	<p><i>Accept with modification.</i></p> <p>It is unlikely that sufficient numbers of suitably experienced veterinarians will be available for all voyages over 10 days and for 10 per cent of other voyages</p> <ul style="list-style-type: none"><li>• accordingly a risk management approach is proposed to be adopted whereby veterinarians will be required for voyages that might have some higher risk</li><li>• veterinarians, accredited by AQIS, to be engaged by exporters but report directly to AQIS</li><li>• AQIS to have the authority to place an AQIS nominated veterinarian on board any voyage, as it sees fit.</li></ul>
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<p><b>Recommendation 6</b></p> <p>There must be a continuation of the current industry investment in rigorous research and development programs on the suitability of different types of livestock for export:</p> <ul style="list-style-type: none"> <li>• in the meantime exports should be banned in circumstances where the available evidence indicates that the risks of adverse outcomes are predictably high;</li> <li>• this would mean the closure of ports such as Portland and Adelaide during those periods of the year when the risks are greatest.</li> </ul>	<p><i>Accept with modification.</i></p> <p>A robust risk management approach be adopted that would see upgrading of facilities and improvements in the sourcing, selection and preparation of livestock that will substantially reduce the risks associated with exporting stock from southern ports in winter, and allow exports under AQIS approved conditions from Portland, Adelaide and Devonport over winter. If a particular identified risk cannot be reduced to acceptable levels, then exports would be suspended so long as the risk remains.</p>
<p><b>Recommendation 7</b></p> <p>Government and industry must work cooperatively to secure the agreement of a country in the Middle East region to establish an operational quarantine holding facility by the end of December 2004:</p> <ul style="list-style-type: none"> <li>• if such a facility is not available by that time, the livestock trade to the region should be reviewed;</li> <li>• if animals exported from Australia are not unloaded within 48 hours of the ship berthing, they must be moved as quickly as possible to the quarantine facility; and dispute resolution mechanism, and quick destruction of the animals if necessary.</li> </ul> <p>The livestock export trade with Saudi Arabia must not resume until there are robust written conditions determined between the governments of Australia and Saudi Arabia which ensure that:</p> <ul style="list-style-type: none"> <li>• Saudi Arabia or the Gulf Cooperation Council is involved at an early stage, possibly pre-embarkation, in approving the health status of the animals;</li> <li>• testing and analysis of the animals in the shipment at the time of first arrival is transparent and reliable;</li> <li>• the animals can be moved to the quarantine holding facility for further determination.</li> </ul>	<p><i>Accept.</i></p> <p>Negotiations are underway with Middle East countries on the signing of a Memorandum of Understanding with each country, which would include the establishment of quarantine facilities, possibly in each importing country, rather than a single facility.</p> <p>The MOU would specify the arrangements and timing for offloading stock into the facility where a problem has been identified.</p> <p>Exports to Saudi Arabia are currently suspended and would not be resumed without an MOU on arrangements relating to the trade.</p>

<p><b>Recommendation 8</b></p> <p>A national response system should be established to plan and manage any future livestock export emergency, possibly modelled on AUSVETPLAN.</p>	<p><i>Accept.</i></p> <p>The model to be used is yet to be determined.</p>
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