

# Chapter 5

## Economic impact of the live export trade within Australia

5.1 As noted in Chapter 2, the committee received a significant amount of evidence during this inquiry regarding the economic significance of the live export trade to the Australian red meat industry generally and to key livestock producing regions in particular. This chapter will consider evidence received regarding the domestic economic impact of the live export trade within Australia, with particular reference to its impact on:

- regional and remote employment, especially in Northern Australia;
- local livestock production and prices; and
- the processing of livestock within Australia.

5.2 Much of the evidence received by the committee focussed on the live export of cattle to Indonesia and the impact of the temporary suspension of that trade. This chapter will also consider the assistance provided to the industry by the Australian Government following the temporary suspension.

### Australian livestock exports

5.3 Australia is the world's largest exporter of livestock. In 2010, Australia exported live cattle to 19 countries, live sheep to 16 countries and live goats to 9 countries. Australia also exported breeding livestock worth \$149 million in 2010.<sup>1</sup>

5.4 Australia's largest markets for live exports by value in 2010 were:

- *Live cattle*
  - Indonesia (\$316 million, 60 per cent of exports);
  - Turkey (\$53 million, 10 per cent of exports); and
  - Egypt (\$48 million, 9 per cent of exports).<sup>2</sup>
- *Live sheep*
  - Kuwait (\$112 million, 35 per cent of exports);
  - Bahrain (\$54 million, 17 per cent of exports); and
  - Qatar (\$41 million, 13 per cent of exports).<sup>3</sup>

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1 Department of Foreign Affairs and Trade STARS database, quoted in *Independent Review of Australia's Livestock Export Trade*, August 2011, p. 14.

2 Department of Foreign Affairs and Trade STARS database, *quoted in Independent Review of Australia's Livestock Export Trade*, August 2011, pp 14-15.

- Live goats
  - Malaysia (\$8 million, 80 per cent of exports);
  - Singapore (\$600,000, 6 per cent of exports); and
  - Brunei (\$258, 000, 2.7 per cent of exports).<sup>4</sup>

5.5 Australia is also the major, and in some cases sole supplier of livestock to some overseas markets. In 2010, Australia supplied 100 per cent of cattle for feeder and slaughter to Indonesia and Japan.<sup>5</sup>

### **Contribution to GDP**

5.6 Much of the evidence received during this inquiry emphasised the significant contribution Australia's livestock export trade makes to the Australian economy and to the Australian rural sector. A number of submitters drew the committee's attention to a report prepared by Hassall and Associates Australia which states that during the period 2000-2004 the export of livestock and the payments for services required to transport livestock to export markets averaged \$1.1 billion.<sup>6</sup> Other witnesses referred to the Centre for International Economics' (CIE) findings that Australia's live export industry has contributed an average of A\$1 billion a year in export earnings since 2005-06, with 74 per cent, or A\$742 million, of these earnings going directly to livestock producers.<sup>7</sup> In 2010, the live cattle, sheep and goat industries exported 3.9 million head of livestock and generated export revenue in excess of A\$1 billion.<sup>8</sup> In 2010 Australian live exports of cattle, sheep and goats were valued at \$863 million and said to account for 2.7 per cent of Australia's agricultural exports.<sup>9</sup>

5.7 To place this in its wider context, the committee notes that in 2007-2008 Australian live exports of cattle and sheep were valued at \$737 million while the combined value of exports of beef, lamb and mutton during the same period was valued at slightly more than \$5.4 billion.<sup>10</sup> Red meat production and live exports of

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3 Department of Foreign Affairs and Trade STARS database, quoted in *Independent Review of Australia's Livestock Export Trade*, August 2011, pp 15- 16.

4 Department of Foreign Affairs and Trade STARS database, quoted in *Independent Review of Australia's Livestock Export Trade*, August 2011, p. 16.

5 *Independent Review of Australia's Livestock Export Trade*, August 2011, pp 16 -17.

6 Wellard Group Holdings, *Submission 306*, MLA/LiveCorp, *Submission 315*, and Australian Livestock Exporters' Council, *Submission 404*.

7 Centre for International Economics, *The contribution of the Australian live export industry*, prepared for LiveCorp and Meat and Livestock Australia, July 2011, pp 5-6.

8 Meat and Livestock Australia and LiveCorp, *Submission 315*, p. 15.

9 *Independent Review of Australia's Livestock Export Trade*, August 2011, p. 14.

10 ABARE Research Report 09.13, Sally Fletcher, Ben Buetre and Kristopher Morey, *The value of the red meat industry to Australia*, June 2009, p. 4 and p. 7.

sheep and cattle together accounted for nearly 22 per cent of the total gross value of Australian agricultural production over this period.<sup>11</sup>

5.8 However, the committee also received evidence that suggested the economic significance of the industry has been overstated and misrepresented. Mr Che Wall, a sustainability practitioner and advocate emphasised the small size of the export industry. Mr Wall argued that:

Live export of beef cattle represents only 0.3% of GDP so any immediate disruption to the subsector would not have material impact on Australia's economy even if one did not consider the indirect benefits that stopping the live export trade would bring ...<sup>12</sup>

5.9 Mr Wall also stated, that while the relative contribution of live export of sheep is higher, it is still of minimal impact to Australia's economy. He concluded that "the perceived threat of immediate harm to the Australian economy through either stopping or improved stringency of regulation in the sector is misguided and misleading".<sup>13</sup>

5.10 Other submitters expressed the view that the live export industry represents a cost to the Australian economy. In evidence, Mrs Jodie Jankevics, a campaign officer for the World Society for the Protection of Animals (WSPA) argued that ending the live export trade would be an investment in Australia's economy.<sup>14</sup> Ms Jankevics told the committee that, according to a report by independent assessor S G Heilbron:

... overall live exports cost Australia \$1.5 billion in lost GDP, \$270 million in lost household income and around 10 ½ thousand lost jobs.<sup>15</sup>

5.11 RSPCA Australia cited a 2010 study commissioned by Queensland's major beef processors to investigate the impact of the live export trade on the Queensland beef industry. RSPCA Australia noted that study's finding that "the growth in the live cattle trade over the last 15 years has damaged the beef-processing industry to the extent that it now threatens the processing sector's long term viability."<sup>16</sup> RSPCA Australia also pointed to the study's conclusions that:

- in 2008-09, live cattle exports cost Queensland \$140 million in lost value added (Gross State Product) and 1,200 lost jobs;

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11 ABARE Research Report 09.13, Sally Fletcher, Ben Buetre and Kristopher Morey, *The value of the red meat industry to Australia*, June 2009, p. 10.

12 Mr Che Wall, *Submission 386*, p.5. [Submission notes that figures have been taken from University of Sydney and CSIRO, *Balancing Act: A Triple Bottom Line Analysis of the Australian Economy*, Volume 2, p. 24].

13 Mr Che Wall, *Submission 386*, p. 5.

14 Ms Jodie Jankevics, World Society for the Protection of Animals, *Committee Hansard*, 10 August 2011, p. 1.

15 Ms Jodie Jankevics, World Society for the Protection of Animals, *Committee Hansard*, 10 August 2011, p. 1.

16 RSPCA Australia, *Submission 333*, pp 3-4.

- by 2013, the economic cost to Queensland would be \$260 million Gross State Product and 2,180 lost jobs; and
- ending the live trade from Queensland and the Northern Territory would generate \$382 million additional Gross State Product for Queensland and an additional 3,112 jobs.<sup>17</sup>

5.12 The committee notes that the above claims are based on an assumption that live exports would be replaced by an on-shore industry which would produce the same volume of processed meat.

### **Impact on regional and remote economies**

5.13 Evidence to the committee placed significant emphasis on the regionally specific nature of the industry and its importance to regional economies in Western Australia, the Northern Territory and Queensland. The committee notes that the economic importance of the red meat industry generally is more significant at the regional level where farming, particularly livestock production, represents a large proportion of total economic activity.<sup>18</sup>

5.14 In a combined submission to the inquiry, MLA and LiveCorp told the committee that over three-quarters of Australian livestock exports depart from northern and Western Australia. During the period 2006-2009, 80 per cent of live cattle exports and 75 per cent of live sheep exports departed from northern and Western Australia. The majority of goats for live export came from New South Wales (33 per cent) and South Australia (27 per cent) respectively.<sup>19</sup>

5.15 MLA and Live Corp told the committee that the live export industry is the sole source of income for many producers in northern and Western Australia. For example, in 2007 over 75 per cent of properties in the northern live export zone were partially or completely reliant on live cattle export receipts.<sup>20</sup>

### *Employment*

5.16 As noted in Chapter 2, the industry is a significant employer in regional and remote Australia. In 2006, the livestock export industry employed some 13,000 people, predominantly in remote and regional areas of Australia. The industry contributed \$1.8 billion to gross domestic product annually and paid \$1 billion in

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17 RSPCA Australia, *Submission 333*, p. 3-4. [Submission notes that information has been taken from SG Heilbron, Economic Policy and Consulting, *The future of the Queensland beef industry and the impact of live cattle exports*, Final report prepared for Teys Bros, Swift Australia and Nippon Meat Packers Australia, 2010].

18 ABARE Research Report 09.13, Sally Fletcher, Ben Buetre and Kristopher Morey, *The value of the red meat industry to Australia*, June 2009, p. 15.

19 Meat and Livestock Australia and LiveCorp, *Submission 315*, p. 2.

20 Meat and Livestock Australia and LiveCorp, *Submission 315*, p. 2.

wages and salaries.<sup>21</sup> More recently, the industry has been estimated to underpin the employment of approximately 10,000 people across northern and western Australia.<sup>22</sup>

5.17 The committee also heard that the live export industry is a significant employer of Indigenous people across northern Australia. The Western Australian Minister for Agriculture and Food, Forestry and Corrective Services, the Hon Terry Redman, emphasised the significance of the live export trade for Indigenous employment:

Of all the pastoral leases up here about one-third are owned by Indigenous groups. One of the great success stories about Indigenous engagement up here and self-determination has been in the pastoral leases. Shutting the trade is certainly depriving them of jobs and income.<sup>23</sup>

5.18 Mr David Galvin, General Manager of the Indigenous Land Corporation (ILC) told the committee that the ILC is a significant employer of Indigenous people in the Kimberley, Northern Territory and Far North Queensland and that these employees are predominantly involved in the live export trade. At the committee's hearing in Broome, Mr Galvin stated:

We employ 522 Indigenous people across Australia. We have 154 trainees across our properties, and most of them are live-in. People can come and do their training in beef production et cetera. It is usually a one-year course up to certificate II. Last year, we also employed 24 Indigenous contractors. So there is a total of 300 people across the Indigenous Land Corporation's businesses. They are on properties owned by the Indigenous Land Corporation and also on Indigenous held land, which is where people have asked us to come onto the land and run cattle operations for them. Overall, we are looking at Indigenous employment in the cattle industry predominantly for the live export trade. These are very conservative numbers; we do not want to exaggerate here and we are probably underestimating. In the Northern Territory the figure is about 202 Indigenous people; in the Kimberley, it is 297; in the Pilbara, 20; and in Far North Queensland, 147. That takes us to about 666, plus we say there are at least 200 people in associated businesses on those properties and that includes ILC employees.<sup>24</sup>

5.19 The Shire of Derby/West Kimberley told the committee that a permanent ban on live exports would have a significant long term impact on Indigenous employment in the region. In its submission the Shire stressed the strong affinity between

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21 Meat and Livestock Australia and LiveCorp, *Submission 315*, p. 2.

22 *Independent Review of Australia's Livestock Export Trade*, August 2011, p. x.

23 The Hon. Terry Redman, MP, Minister for Agriculture and Food, Forestry and Corrective Services, *Committee Hansard*, 1 September 2011, p. 7.

24 Mr David Galvin, Indigenous Land Council, *Committee Hansard*, 1 September 2011, p. 34.

Indigenous communities and the cattle industry and the limited alternative employment opportunities.<sup>25</sup>

5.20 A number of submitters expressed concern regarding the quantum of job losses that would result from closure of the trade. MLA and LiveCorp told the committee that, based on estimates provided by AgEconPlus in 2007, 5,800 full time equivalent jobs (both direct and indirect) would be lost in first year following cessation of the trade. Net losses would continue to be significant in the medium to longer term, with losses of 4,700 in year five and 3,700 in year ten.<sup>26</sup>

5.21 In his submission to the inquiry, Dr Ray Trewin<sup>27</sup> argued that the main certainty of a trade ban from an Australian economic impact perspective is that it would cost internationally-competitive Australian jobs to competing exporters like New Zealand or Brazil (via live or slaughtered meat trade competition).<sup>28</sup> Dr Trewin also argued that:

The loss of jobs directly involved in the live export trade (graziers, transporters, port workers etc) is obvious and these cannot be transferred to the slaughtered meat trade as processing is generally an uncompetitive value 'subtracted' activity ... These job losses would have a multiplier effect into local communities.<sup>29</sup>

#### *Flow-on benefits to regional and remote communities*

5.22 In addition, the committee heard that a host of other sectors are dependent on the live export trade, including exporters, port and stevedoring services, shipping companies, road transporters, veterinary practices as well as helicopter and other ancillary service providers.<sup>30</sup>

5.23 The Shire of Derby/West Kimberley's submission acknowledged that while industries such as mining and tourism have, over recent years, generated business and boosted the local economy, it has been the beef industry which has provided a sustained level of widespread support for the local economy. Those dependent on the industry include: permanent and casual station staff, stock feed suppliers, musterers, drovers, transport companies, holding yards, port facilities, petrol companies, cattle

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25 Shire of Derby/West Kimberley, *Submission 144*, p. 1.

26 Meat and Livestock Australia and LiveCorp, *Submission 315*, p. 2.

27 Dr Ray Trewin is a Visiting Fellow, Crawford School of Economics and Government, Australian National University.

28 Dr Ray Trewin notes that whilst New Zealand banned the live export of cattle for slaughter some years ago, it still has significant exports of breeding cattle. Dr Trewin also suggests that these cattle will end up being slaughtered, either immediately following their transport because they do not meet required conditions (eg. uninjured) or when they are worth more slaughtered than being kept as breeders.

29 Dr Ray Trewin, Australian National University, *Submission 166*, pp 2-3.

30 Meat and Livestock Australia and LiveCorp, *Submission 315*, p. 2.

buyers, auction houses, veterinarians, banks, government agencies, and fencing contractors.<sup>31</sup>

5.24 The ILC told the committee that through the formation of significant partnerships with governments and industry across Australia, there has been significant investment in capital infrastructure on ILC properties, previously unused land has been brought back into production, generating a range of employment and training opportunities for Indigenous workers with flow on benefits for Indigenous communities. Mr Galvin stated that:

Right at the moment, we are running 90,000 head of cattle on those properties, which are in the Kimberley, the Northern Territory and Queensland. Our turn-off is about 14,000 head per year, of which half are steers. We also run a small abattoir at Gunbalanya, which is an Aboriginal community of some 1,500 people in the Northern Territory. We are processing 30 beasts per week through that, of which half are cattle and half are buffalo. We hope to take that up to 90 head per week over the next two to three years.<sup>32</sup>

### **Impact and role of the industry on local livestock production and prices**

5.25 The committee heard a range of evidence regarding the impact of the live export industry on domestic livestock production and prices.

#### ***Production in Northern Australia geared to live export***

5.26 The committee heard a great deal of evidence that emphasised that livestock production in northern Australia in particular is very much dependent on the live export trade. This partly reflects the nature of the rangelands and the cost structures associated with producing cattle for the domestic market.

5.27 As discussed in Chapter 2, the committee heard that the live cattle export industry in northern Australia in particular has developed hand in hand with the Indonesian feedlot industry. Witnesses explained to the committee that over a 20 year period, state and federal governments have actively encouraged northern Australian cattle producers to focus on the Indonesian market. As a result, the northern Australian herd is predominantly *Bos indicus*, cattle producers are primarily focused on breeding as opposed to fattening cattle, and there has been a significant amount of investment in infrastructure to support the live export industry.<sup>33</sup> As discussed in Chapter 2, the committee was told that it would take a significant number of years to restructure the herd and infrastructure to target a domestic market.<sup>34</sup>

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31 Shire of Derby/West Kimberley, *Submission 144*, p. 1.

32 Mr David Galvin, Indigenous Land Corporation, *Committee Hansard*, 1 September 2011, p. 34.

33 See for example, *Committee Hansard*, 1 September 2011, pp 52-53.

34 Mr David Stoaate, Anna Plains Cattle Co. Pty Ltd, *Committee Hansard*, 1 September 2011, p. 52.

### ***Impact on domestic prices***

5.28 A number of witnesses emphasised the important role that the live export industry plays in underpinning Australia's livestock industries generally by underpinning domestic prices and providing valuable alternative outlets for livestock producers. A number of submissions to the inquiry directed the committee to a range of studies into the impact of the cessation of the live export trade which tend to project consequential reductions in beef, lamb and mutton prices and note the negative regional impacts that would flow from this.<sup>35</sup>

5.29 The committee heard that the live export trade contributes four per cent, or eight cents a kilogram live weight, to grass fed cattle, eight per cent or 12 cents per kilogram to the price of lambs and 18 per cent or 15 cents per kilogram to the price of older sheep.<sup>36</sup> The Centre for International Economics has estimated that the average impact of the trade on farm level Gross Value of Production (GVP) for the period 2005-06 to 2008-09 to be -1.5 per cent for the cattle industry and -5.9 per cent for the sheep industry.<sup>37</sup>

5.30 The committee notes reports that domestic beef prices dropped by five per cent or 10c a kilogram following the suspension of trade with Indonesia.<sup>38</sup> Hydros Consulting also observed an apparent drop in the price of cattle destined for other markets as a result of the export restriction while the costs of production had either remained the same or increased. Hydros Consulting note in their report:

Prices appear to have declined from \$2.10 per kg prior to the export restriction to \$1.60 per kg in recent sales to other markets. For a 320kg animal, this is a reduction of revenue of approximately \$160 per head. At the same time, the costs of production have either remained static or increased, and other costs incurred, such as addition transport costs to other markets.<sup>39</sup>

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35 See for example: The Hon. Terry Redman, MP, Minister for Agriculture and Food, Forestry and Corrective Services, *Committee Hansard*, 1 September 2011, p. 7, Ms Kate Joseph and Mr Ron Cullen, Sheepmeat Council of Australia, *Committee Hansard*, 14 September 2011, p. 6. and Western Australian Department of Agriculture and Food, *Submission 368*, p.34.

36 NSW Farmers' Association, *Submission 413*, p. 7 and Centre for International Economics, *The Contribution of the Australian Live Export Industry*, prepared for LiveCorp and Meat and Livestock Australia, July 2011, p. 52.

37 Centre for International Economics, *The Contribution of the Australian Live Export Industry*, prepared for LiveCorp and Meat and Livestock Australia, July 2011, p. 52.

38 The Australian, *Live export ban hits prices*, 14 June 2011, accessed at [http://www.weeklytimesnow.com.au/article/2011/06/14/344791\\_latest-news.html](http://www.weeklytimesnow.com.au/article/2011/06/14/344791_latest-news.html) on 10 October 2011

39 Hydros Consulting, *Financial Impact of Cattle Export Restrictions to Indonesia*, July 2011, p. 3.



5.31 The committee notes the views expressed by Mr Brad Bellinger to the Farmer Review regarding the role of the live export trade in providing vital competition within Australia's restricted domestic beef market. He noted that the Australian processing sector is dominated by two companies who control 47 per cent of the cattle kill capacity. He submitted that this is compounded by the dominance of two major supermarket chains selling 50 per cent of beef in the domestic retail market.<sup>40</sup>

5.32 The Australian Merino Society (AMS) made similar observations in relation to the sheep industry and emphasised the importance to the industry of maintaining both a healthy live export industry and a healthy domestic market for sheep meat. The AMS said that its members are currently achieving weaning rates in excess of 100 per cent (usually in the range of 90 to 130 per cent) and members have had more sheep to sell annually than used to be the case. The AMS stressed the importance of ensuring that potential markets are not unnecessarily constricted. The AMS further argued that many producers in the eastern states:

... have not considered the potential impacts on their markets and prices that they currently receive for surplus stock, if large numbers of WA sheep and cattle, that are currently exported live, were to compete in their markets for abattoir space and grazier re stocking. We believe that there would be considerable downward pressure on the prices that they would receive for their livestock as most WA livestock is destined for the export market. A removal of the option of live export would necessitate significant numbers of WA livestock competing in existing eastern states markets.<sup>41</sup>

5.33 The Western Australian Department of Agriculture and Food also expressed concern at the limited potential for the domestic sheep meat market to absorb surplus supply caused by a cessation in live exports.<sup>42</sup> In its submission, the WA Department disputed the findings of the 2009 ACIL Tasman report that found there would be minimal change in lamb and mutton prices as a result of the closure of the live sheep export trade. The WA Department referred the committee to the 2011 CIE study that found "on average across Australia, lamb and mutton prices would decline by 12 and 15 per cent respectively due to the cessation of live exports" and noted the regional impacts flowing from this.<sup>43</sup>

#### *Significance of live export trade to Indonesia*

5.34 The committee heard that the live cattle trade with Indonesia accounts for 75 per cent of Australia's live cattle export trade. The committee was told that the

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40 Mr Brad Bellinger, submission to the Independent Review into Livestock Export Trade.

41 The Australian Merino Society Inc, *Submission 199*, p. 2.

42 Western Australian Department of Agriculture and Food, *Submission 368*, p. 11.

43 Western Australian Department of Agriculture and Food, *Submission 368*, pp 9-10.

average annual value of live exports is in the order of \$1billion, minus the costs involved in the acquisition, preparation and transportation of the animals.<sup>44</sup>

### **Impact of the temporary suspension of live export of cattle to Indonesia**

5.35 The announcement of the temporary suspension of live exports of cattle to Indonesia on 7 June 2011 caught many in the industry off guard. Mr Phillip Hams described the impact of the announcement as being like a train crash. He said:

I was laying in bed at 12 o'clock one night when the news came on the ABC ... that the ban had gone on for the next day. Outside not too far from where I stay four helicopters parked up and a whole heap of RTA road trains parked up. There were probably 30 people ready to roll the next day and at 12 o'clock the new comes. It was like a train crash-it just goes, 'Whoompa!'<sup>45</sup>

5.36 The Hydros Consulting report commissioned by DAFF to help inform the Government in relation to assistance packages for the industry, states that at the announcement of the ban many producers had not yet sold the majority of their cattle.<sup>46</sup> The report states that smaller to medium producers typically export their stock at later times than very large producers, due to the need to aggregate stock between producers. This, together with transport problems associated with delays in reopening roads after the late wet season in 2010-2011, meant that many of these producers, particularly those not located close to a sealed road, had sold very little of their stock bred for the Indonesian market prior to the export restriction.<sup>47</sup>

5.37 The committee received a great deal of very sobering evidence about the social impact of the *Four Corner's* program and the temporary suspension of cattle exports to Indonesia. The uncertainty immediately following the announcement of the suspension led to significant and immediate flow-on effects in the form of cancellations of jobs and contracts, reduced shifts and the suspension of training programs due to commence.<sup>48</sup> In addition to the immediate financial stress and

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44 Shire of Derby/West Kimberley, *Submission 144*, p. 1.

45 Mr Phillip Hams, West Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 54.

46 Mr Paul Morris, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 14 September 2011, p. 49. The committee notes that the Hydros Consulting report reflects the financial information, perceptions and experiences of a number of small and medium scale producers and was not designed to reflect a statistically valid sample of either the industry or a select group. Refer to Hydros Consulting, *Financial Impact of Cattle Export Restrictions to Indonesia*, July 2011, p. 3.

47 Hydros Consulting, *Financial Impact of Cattle Export Restrictions to Indonesia*, July 2011, p. 3.

48 See for example: Mrs Julie Newton, *Committee Hansard*, 2 September 2011, pp 25-26; Mrs Joanne Bloomfield, *Committee Hansard*, 2 September 2011, pp 1-2; John Mr Fraser, *Committee Hansard*, 2 September 2011, p. 28.

uncertainty, a number of witnesses told the committee of the impact on family members, particularly their children. They spoke of the stress resulting from harassment by other students, their desire to keep as much of the reality from students undertaking their final year of education and the stress of not knowing if they would be able to meet school fees or if they might need to move children to more affordable schools.<sup>49</sup> Many with younger school age children had needed to let home tutors go and take on this role themselves, often finding it difficult to balance this with their active role assisting in the day to day management of a family operated property.<sup>50</sup>

5.38 Mr Setter, AACo, summed up the socio-economic impact immediately after the ban by telling the committee:

It is real that there are people who are hurting. Most of Northern Australia does not have electricity that comes through a power line; they have to buy diesel to produce it themselves. There are plenty of stories of people who do not have enough money to buy diesel to run the lights in their homes, plenty of stories of people looking to pull children out of boarding school because they cannot afford to pay the bills and the flow-on effect for people who were virtually on a suicide watch by neighbours because of the depression that is starting to set in. There are grave concerns, particularly through some of the areas of the northern Kimberley.<sup>51</sup>

5.39 The committee was told that the majority of pastoral stations in the Kimberley, for example, are owned and operated by small family businesses or Indigenous groups. The committee was told that these station owners will take some time to recover from the impacts of the suspension of the trade and that there will be flow on consequences for regional and remote communities for some time to come.<sup>52</sup>

5.40 Mrs Elsia Archer, President of the Shire of Derby/West Kimberley told the committee that, the suspension of the live cattle trade was likely to have a major impact on local governments and local communities "because some of the pastoralists may not be able to pay their rates this coming year". She said:

As you would know, local governments are not very flush with money. The money we gather from pastoralists is used to grade roads, their roads. If roads do not get graded, they will not be able to bring the cattle trucks out, so it has an ongoing effect. Where we sit at the moment, we do not know whether they will or whether they will not but I can see hardship in some

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49 See for example: Mrs Bettina MacFarlane, *Committee Hansard*, 2 September 2011, p. 3; Mr Jack Burton, West Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 55; Mr Murray Grey, Pilbara Producers' Group, *Committee Hansard*, Friday 2 September 2011, p. 38.

50 See for example: Ms Kirsty Forshaw, West Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 59 and Mrs Bettina MacFarlane, *Committee Hansard*, 2 September 2011, p. 3.

51 Mr Troy Setter, Australian Agricultural Company, *Committee Hansard*, 4 August 2011, p. 32.

52 Shire of Derby/West Kimberley, *Submission 144*, p. 1.

places. It is not just the cattle people who are suffering from all that has happened.<sup>53</sup>

### **Australian Government assistance**

5.41 In recognition of the impact of the temporary suspension of live cattle exports to Indonesia, the Australian Government initiated a number of financial assistance measures.

#### ***Income Recovery Subsidy payments***

5.42 On 27 June 2011, the Australian Government announced a \$3 million financial package for individuals who had experienced loss of income due to the suspension of the trade.

5.43 This package included priority assistance through Job Services Australia, which was managed by the Department of Education, Employment and Workplace Relations. DAFF advised the committee that:

Job Services Australia providers have access to an Employment Pathway Fund, which they can use to purchase a wide range of services and assistance that help redundant workers access the support they need to find new work. This fund can be used for training courses, language assistance, travel assistance, skills assessments, mentoring and counselling support, as well as employer incentives.<sup>54</sup>

5.44 As at 9 September 2011, 22 people had applied and been paid the Income Recovery Subsidy and 71 job seekers had registered for priority assistance through Job Services Australia.<sup>55</sup>

5.45 At the committee's public hearing on 14 September 2011, Mr Tom Aldred, DAFF, confirmed that there had not been a lot of applications under the Income Recovery Subsidy. He said:

The applications can be retrospective or prospective, so it may be that case that payments will still be made for up to 13 weeks after the closing date for applications, which was, I believe, 5 September. So it is possible that there will be further payments. But the uptake has not been high. People may well have made applications for Newstart arrangements. This one was put

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53 Mrs Elsia Archer, President, Shire of Derby/West Kimberley, *Committee Hansard*, 1 September 2011, p. 46.

54 Department of Agriculture, Fisheries and Forestry, answers to written questions on notice, 13 September 2011.

55 Department of Agriculture, Fisheries and Forestry, answers to written questions on notice, 13 September 2011. DAFF advised that at 9 September 2011 a total amount of \$0.01 million had been paid under the Income Recovery Subsidy and \$0.02 million had been paid under the Priority Assistance through Job Services Australia.

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in place particularly for people who may fail the Newstart test because of their asset limits.<sup>56</sup>

### ***Live Export Business Assistance Package***

5.46 On 30 June 2011, the Government announced a \$30 million Live Exports Business Assistance Package to support pastoralists and other businesses facing short-term financial hardship as a result of the suspension. Under the package, the government provided payments of \$5,000 for eligible businesses. Further grants of up to \$20,000 were also available. Applications for business assistance payments closed on 30 September 2011.

5.47 This package was intended to assist northern Australian cattle producers to actively manage their cattle and properties, and make decisions on business costs like feed, hay covers, transport and repairs and maintenance before the next wet season.

5.48 As at 9 September 2011, 483 applicants had been paid a total of \$2.41 million under the Business Assistance Payment and 174 applicants had been paid a total of \$3.31 million under the Business Hardship Payment.<sup>57</sup>

### ***Subsidised Interest Rate Scheme and grants for financial advice***

5.49 On 10 August 2011, the government announced that it would provide access to new working capital through the provision of a Subsidised Interest Rate on new loans of up to \$300,000 for a range of businesses directly affected by the temporary suspension, as well as grants for financial assistance advice of up to \$5,500.

5.50 Under this scheme the Australian Government offered to subsidise the interest on new and extended borrowings for up to two years for businesses affected by the temporary suspension. The scheme is intended to assist cattle producers and other businesses directly involved with the live cattle export trade to Indonesia such as transporters, vets, hay producers, heli-musterers and agents to manage the ongoing costs of their businesses.<sup>58</sup>

5.51 Eligible businesses are able to access a subsidy over a two year period on new borrowings of up to \$300,000 at a subsidised interest rate of up to eight per cent in the first year and four per cent in the second year. The maximum total subsidy available under the scheme is \$36,000. The committee notes that new loans, or the new portion

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56 Mr Tom Aldred, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 14 September 2011, p. 54.

57 Department of Agriculture, Fisheries and Forestry, answers to written questions on notice, 13 September 2011.

58 Australian Government, Action on live exports, Subsidised Interest Rate Scheme, accessed at <http://www.liveexports.gov.au/assistance>, accessed on 7 October 2011.

of an extension to existing facilities, drawn since the announcement of the temporary suspension on 7 June 2011, may be eligible for assistance under this program.<sup>59</sup>

5.52 The Australian Government also announced the availability of financial advice grants of up to \$5,500 to help eligible cattle producers gain assistance with medium term decision-making about their business costs. The grants can be used to pay for financial advice and planning, business advice and planning, legal advice and advice directly related to agriculture.<sup>60</sup>

5.53 DAFF told the committee that the Rural Financial Counselling Service has extended the services provided by its counsellors in Western Australia and South Australia to assist the northern Australian live export industry. DAFF said:

RFCS WA has made counsellors available to travel to the north of Western Australia to attend cattle sales and producer days. RFCS SA is providing short-term, face-to-face services in the Northern Territory, with support of the Australian and northern Territory governments. A rural financial counsellor from South Australia has been based at the Cattle Council of Australia office in Darwin since mid-July. Since 11 September 2011 this counsellor has recorded 65 customer contacts.<sup>61</sup>

5.54 DAFF advised that it is not possible to separate the cost of providing these additional services from the cost of the existing level of service as the assistance does not equate to a payment of a set amount as with the other assistance packages.<sup>62</sup>

### *Take up of financial assistance*

5.55 The committee received considerable evidence regarding the reluctance on the part of cattle producers and other businesses to take up the financial assistance offered by the Australian Government.

5.56 Hydro Consulting noted that many producers were reluctant to take up the Income Recovery Subsidy payments because of the stigma associated with what was perceived as a welfare payment. In their report Hydro Consulting said:

The \$5,000 payment which has been offered to producers appears to have not been taken up to any significant extent. There appears to be a marked reluctance by many producers, due to the perceived social stigma associated

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59 Australian Government, Action on live exports, Subsidised Interest Rate Scheme, accessed at <http://www.liveexports.gov.au/assistance>, accessed on 7 October 2011.

60 Australian Government, Action on live exports, Live Exports \$5500 financial advice grant – Fact Sheet, accessed at [http://www.liveexports.gov.au/assistance/live\\_exports\\_\\$5500\\_financial\\_advice\\_grant\\_-\\_fact\\_sheet](http://www.liveexports.gov.au/assistance/live_exports_$5500_financial_advice_grant_-_fact_sheet), accessed on 7 October 2011.

61 Department of Agriculture, Fisheries and Forestry, answers to written questions on notice, 13 September 2011, p. 2

62 Department of Agriculture, Fisheries and Forestry, answers to written questions on notice, 13 September 2011, p. 2

with claiming social security benefits, to contact Centrelink. Therefore, despite this assistance being identified by Government as a business payment (which are often delivered through Centrelink in other instances), the issue of the payment being processed through Centrelink helps create an impression that this is similar to a social security benefit.

5.57 Evidence heard during this inquiry confirmed that the payments were not only perceived as welfare, but were considered to be inadequate to address the financial issues being faced by cattle producers. Mr Setter, AACo, told the committee that:

In the short term, offering people welfare payments and things like that that do not even cover the cost of running their generators for the day is not a solution. The minimal welfare packages that have been announced do not even allow people to run their generators.<sup>63</sup>

5.58 Mr Jack Burton, from Kilty Station in the West Kimberley, told the committee:

I am the CEO of a company that runs 50,000 cattle. It is a family operation. This is what we love about this compensation-type thing—my current interest bill is well in excess of \$100,000 a month!<sup>64</sup>

...

For someone who has over \$1.2 million in interest payments a year to be offered \$20,000 is ... hilarious. They said, 'Why didn't you apply?' Why bother? I have got a \$1.2 million wage bill.<sup>65</sup>

5.59 These sentiments were echoed by the Northern Territory Chief Minister, the Hon Paul Henderson, who told the committee:

From talking to Emily last night I know that the payment of \$25,000 that people have accessed is just a drop in the bucket, quite frankly, when there are payrolls to meet and bills to pay. I would have thought that it should be in the vicinity of around \$200,000, and if it needs to be repeated it should be repeated. People are saying, 'We don't want welfare; we want our livelihoods back, we want the trade back.' These are proud people. They do not want to go down to Centrelink and get a Centrelink payment; they actually want to work.<sup>66</sup>

5.60 The committee notes that it is not just cattle producers who have concerns about the level of assistance provided to the industry to recover from the suspension of

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63 Mr Troy Setter, Australian Agricultural Company Pty Ltd, *Committee Hansard*, 4 August 2011, p. 32.

64 Mr Jack Burton, Kilty Station, *Committee Hansard*, 1 September 2011, p. 53.

65 Mr Jack Burton, Kilty Station, *Committee Hansard*, 1 September 2011, p. 53.

66 The Hon. Paul Henderson, Chief Minister, Northern Territory Legislative Assembly, *Committee Hansard*, 4 August 2011, p. 52.

the trade. Many service industries, such as transport, export agents and ports have shed staff or dramatically reduced staff hours in an effort to contain costs.

5.61 Other businesses have found that sales they had budgeted for and supplies they had ordered based on normal market projections have become a potential liability. Mrs Cynthia Bakalian, who with her husband Steven owns Northern Feed and Cube, stressed that while the financial assistance to date had been welcome, in the broader context of the financial impact on their company's business, it was insignificant. Mrs Bakalian told the committee:

I want to thank you guys for the assistance package. It certainly helped. The \$25,000 paid one month's interest, or one two-week payroll—well, almost. Honestly, it is appreciated and for many of the really small guys it put food on their tables, and for that I am honestly grateful. But really, guys, for many of our businesses we need more well-structured, long-term assistance with the losses we have suffered and the money that can never be recouped.<sup>67</sup>

5.62 Northern Feed and Cube makes hay cubes and pellets for the live cattle export trade. Mrs Bakalian told the committee that the company was struggling to meet loan repayments and had needed to let staff go. In addition, the company had committed to buying several thousand tonnes of hay which it would now need to store over the wet season. Mrs Bakalian described the enormity of the challenge faced by their company as they seek to protect that hay during the wet season. She told the committee that the company would need to purchase a further 10 tarps at cost of \$8,000 each if it was not to lose this unintended stockpile of hay.<sup>68</sup>

5.63 In discussions with the committee about the availability of assistance to businesses who face similar difficulties to Northern Feed and Cube, Mr Aldred, DAFF, told the committee:

The department will operate according to the guidelines associated with the various elements of the package. But there is certainly flexibility in the business assistance payment and the business hardship payment, which total \$25,000. The recipients of those are able to use them for whatever nature of accounts or expenditure is necessary.<sup>69</sup>

5.64 Other witnesses questioned why a form of exceptional circumstances payment or disaster relief payment could not be made available to the cattle industry. The Northern Territory Chief Minister, told the committee that:

We need significant assistance from the Commonwealth to ensure sustainable livestock in suitable conditions. After Cyclone Yasi in Queensland, an industry support and recovery package was put together for

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67 Mrs Cynthia Bakalian, Northern Feed and Cube, *Committee Hansard*, 2 September 2011, p. 32.

68 Mrs Cynthia Bakalian, Northern Feed and Cube, *Committee Hansard*, 2 September 2011, p. 31.

69 Mr Tom Aldred, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 14 September 2011, p. 52.



Queensland banana growers and other people on the land that provided for significant payments under disaster relief arrangements. This is not a natural disaster, but it certainly is a disaster that has been caused by a decision of government, and an industry support and recovery package needs to be put in place. Producers are significantly suffering at the moment, and I will be writing in those terms to the Prime Minister.<sup>70</sup>

...

There should be cash payments up-front and significant payments to help with a lack of access to cash. There is just no cash out there in the economy at the moment, so people who are ordering fuel or ordering feed are not on 30-day terms anymore; it is cash. With no cash there is no fuel, and we are in the dry season. People have fuel on stations, but once the fuel to power the pumps for the bores starts to run out, the cattle are going to be without water. Cash is king. That is what is required. Under the NDRA arrangements, significant cash payments should be available to people who can demonstrate that they cannot access cash at the moment.<sup>71</sup>

5.65 A number of witnesses impressed upon the committee the need to return confidence to the industry to protect investments and enable businesses to keep going. Mr Stefan Hart told the committee:

Compensation is only going to fix the problem for a short amount of time. We need to find a way to get the security back in the industry again so people feel safe, so that when they spend their money they know that their investment is going to pay off. All my contract work has been put on hold because, even though the trade has restarted, people are still scared that it could happen again. We need to get that security back so that people are happy to spend their money, knowing they can afford to make their interest payments because they can sell their cattle.<sup>72</sup>

5.66 DAFF told the committee that while applications under the assistance programs had been slow to start, as the closing date for the program approached, the number of applications had increased. At the committee's public hearing on 14 September 2011, Mr Aldred told the committee:

We would expect over the next few weeks for expenditure to increase for a couple of reasons. Firstly, our experience is that with a closing date of 30 September a lot of people will actually come in at the last minute or in the closing few weeks. We certainly saw a spike starting last week. The second element is that, from the figures we have provided you, there are 483 as at last Friday who had accessed the business assistance payment of \$5,000. So there is a likelihood that the balance between those and the ones who have

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70 The Hon. Paul Henderson, Chief Minister, Northern Territory Legislative Assembly, *Committee Hansard*, 4 August 2011, pp 48-49.

71 The Hon. Paul Henderson, Chief Minister, Northern Territory Legislative Assembly, *Committee Hansard*, 4 August 2011, pp 48-49.

72 Mr Stefan Hart, *Committee Hansard*, 2 September 2011, p. 34.

already applied for business hardship payments will apply—that is 174. There is a cohort there of around 300 who have accessed the business assistance payment but who have not yet accessed the business hardship payment and, for all intents and purposes, we would expect them to do so.<sup>73</sup>

5.67 Mr Aldred also told the committee that, since the announcement of the Subsidised Interest Rate program on 10 August 2011, Centrelink had received 35 calls enquiring about the program. Mr Aldred explained that these callers had been registered and would be contacted with details about how to access the program.<sup>74</sup>

5.68 Mr Aldred also confirmed that DAFF was using a range of different mechanisms to try to raise awareness of the forms of assistance available and to try to encourage people to apply, ranging from "facilitating additional service through the Rural Financial Counselling Service to asking the farm organisations to assist and attending field days or workshops".<sup>75</sup>

### ***Managing interest repayments***

5.69 The committee notes that many of the witnesses it heard from were experiencing difficulty meeting interest repayments.<sup>76</sup> The Hydro Consulting report notes that debt levels among many cattle producers appears to be at historically high levels. Many producers appear to have extended borrowings to undertake capital improvements in anticipation of a good season.<sup>77</sup> The report also notes that most of the borrowers contacted as part of that study have been contacted by their banks to discuss the current situation. Some banks have requested local valuers to value properties since the export ban and a number of banks have asked borrowers to demonstrate that they are doing all they can to mitigate the current cash flow situation.<sup>78</sup>

5.70 The report observes that the combination of decreased property values and decreased cash flow may lead banks to increase their margins. The report states:

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73 Mr Tom Aldred, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 14 September 2011, p. 53.

74 Mr Tom Aldred, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 14 September 2011, p. 55.

75 Mr Tom Aldred, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 14 September 2011, p. 55.

76 See for example: West Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 53, and Central Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 76.

77 Hydros Consulting, *Financial Impact of Cattle Export Restrictions to Indonesia*, July 2011, p. 5.

78 Hydros Consulting, *Financial Impact of Cattle Export Restrictions to Indonesia*, July 2011, p. 6.

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Banks could potentially now be more conscious of the risk associated with the live cattle reliance on the Indonesian market and are likely to ascribe higher risk (and thus increased margins and lower debt levels) in future.<sup>79</sup>

5.71 DAFF expressed confidence that its discussions with financial institutions to date had not indicated they were contemplating the imposition of penalty interest rates or similar actions.<sup>80</sup> However, the committee noted that many witnesses were clearly anxious about the stance financial institutions might take in the longer term. Mr Haydn Sale told the committee that interest rate subsidies would be of great assistance to cattle producers. In outlining the key measures that would bring relief to producers, he said:

No. 1 is interest rate subsidies on existing loans because we are under enormous pressure from banks and we are down tremendously on income—so we have to just survive into next year. A bank is going to be a lot happier about having its interest paid by the government rather than us having to have that extra debt. We do not have that option so we are really in a corner.<sup>81</sup>

5.72 The committee notes that the Hydro Consulting report made a number of suggestions to assist borrowers in their dealings with financial institutions and considers that these measures are worthy of further consideration.

### **Domestic processing of livestock currently bred for the live export market**

5.73 The crisis facing the live cattle export industry following the temporary suspension of trade to Indonesia has highlighted the dependence of this sector of the industry on the Indonesian market and the limited options available to cattle producers in northern Australia to sell their stock. As noted earlier, Australia supplies 100 per cent of live cattle imported by Indonesia and this trade accounts for 60 per cent of Australia's live cattle export trade.

#### ***Feasibility of transporting northern livestock to existing meat processing facilities***

5.74 As noted in Chapter 2, many witnesses who support the phasing out of the live export trade emphasised the desirability of processing livestock close to the point of production. However, the committee also heard a range of evidence indicating that in the short to medium term there are significant limitations on the extent to which stock produced for the live export market can be redirected to domestic processing facilities.

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79 Hydros Consulting, *Financial Impact of Cattle Export Restrictions to Indonesia*, July 2011, p. 6.

80 Mr Tom Aldred, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 14 September 2011, p. 52.

81 Mr Haydn Sale, Central Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 76.

5.75 The committee notes that there are limited processing facilities available in northern Australia. The only large scale northern Australian facilities located outside capital cities are those in Rockhampton and Biloela in Queensland. There are currently no processing facilities in the Northern Territory and no processing facilities in the north of Western Australia.<sup>82</sup> The only alternative for producers to send livestock to domestic processing plants is to transport them significant distances by road.

5.76 The transport and other costs associated with the shipment of cattle to other domestic markets is considered not to be viable by many producers, given the lower beef prices domestically and the lower demand for *Bos indicus* beef in southern markets. Hydro Consulting reported the following transport and other costs associated with the shipment of cattle to domestic markets:

\$150 per head from Kimberley to Harvey, \$250 per head from Northern Territory to Murray Bridge and \$136 per head from Northern Territory to Longreach.<sup>83</sup>

5.77 Mr Nigel Westlake, Manager of Mount House Pastoral Partnership, told the committee that if Mount House Station, in the Gibb River in the north of Western Australia, was to send its cattle to the nearest meat processing facilities in Harvey in the south-west of Western Australia, the freight costs would be more than half the value of the animals. He emphasised that this did not include the incurred losses to transport them over such a long distance. He said that when the Kunnurra abattoir was operating, cattle from Mount House Station had been sent to Kunnurra by road for a fraction of the cost to transport them to Harvey.<sup>84</sup>

5.78 Other witnesses told the committee of the difficulties associated with transporting livestock by road. The committee heard that a lack of sealed road often means that animals are unable to be transported via the most direct route and that this adds to the cost of production and the stress for the animals. For example, a number of witnesses referred to current poor state of certain roads in Western Australia that could potentially cut transport distances by as much as a thousand kilometres.<sup>85</sup> Mr Phillip Hams told the committee that the cessation of the live trade to Indonesia had demonstrated the difficulties associated with diverting cattle from northern Western Australia from live export markets to domestic markets. He said:

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82 RIRDC, *Feasibility of Establishing a Northern WA Beef Abattoir*, RIRDC Publication No. 10/214, November 2010, p. 19.

83 Hydros Consulting, *Financial Impact of Cattle Export Restrictions to Indonesia*, July 2011, p. 4.

84 Mr Nigel Westlake, Central Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 70.

85 Mr Phillip Hames, West Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 54 and Ms Lynette Craig, Central Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 73.

... the West Kimberley region is ideally situated and has the soil types and the range lands to produce cattle for export. ... [But] you could not find a worse spot in Australia if you tried to start to back up and do something else with those cattle.<sup>86</sup>

### ***Support for the reestablishment of meat processing facilities in Northern Australia***

5.79 Witnesses in favour of phasing out the trade emphasised the benefits of focussing greater investment into Australia's meat processing sector, stressing the positive impact this would have on the Australian economy through the development of more processing facilities, an increase in the export of boxed and chilled meat as well as opportunities for the industry to value-add and diversify.<sup>87</sup>

5.80 The Community and Public Sector Union (CPSU) argued that a ban on live exports "has the potential to re-enliven Australia's meat processing industry and bring back to regional towns, many of the jobs that have been lost".<sup>88</sup> The CPSU further argued that local processing of Australian cattle would ensure that high levels of animal welfare and hygienic meat productions are applied throughout the slaughtering process.<sup>89</sup>

5.81 A number of submitters advocated government investment in re-establishing meat processing facilities in northern Australia. Mr Rod Botica argued that access to processing facilities in Broome, Derby and Wyndham would provide a market for northern cattle producers, support Australian jobs and guarantee best practice slaughter standards.<sup>90</sup>

5.82 Ms Di Johnstone also argued that existing facilities, such as the facility at Katherine, might be reopened with government assistance, emphasising the benefits to the surrounding regional communities. Ms Johnstone told the committee that the Katherine facility was due to be reopened in 2010, but this had not happened because of a lack of government support on issues such as upgrading power and water supplies.<sup>91</sup>

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86 Mr Phillip Hams, West Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 54.

87 See, for example: World Society for the Protection of Animals, *Submission 105*, p. 1; Dr Linda Fleeman, *Submission 114*; Ms Juliana Harmsen, *Submission 119*; Ms Chantal Teague, *Submission 120*; Stop Live Exports, *Submission 121*; Ms Naomi Oliver, *Submission 125*; Ms Renee Blight-Clark, *Submission 129*; Ms Sharon Rabusin, *Submission 142*; Ms Kathryn Keen, *Submission 143*, Mrs Annarosa Berman, *Submission 155*, Mrs Belle Gibbons, *Submission 170* and Dr Robert Wansbrough, *Submission 184*.

88 Community and Public Sector Union, *Submission 179*, p. 5.

89 Community and Public Sector Union, *Submission 179*, p. 5.

90 Mr Rod Botica, *Submission 34*, p. 1.

91 Ms Di Johnstone, *Submission 265*, p. 9.

5.83 Ms Emily Brett, a cattle producer from Katherine also argued that there is a need for an abattoir in the Darwin region for slaughtering cattle over 350kg, which are unable to be exported to Indonesia. Ms Brett noted that:

At the moment we have to truck these cattle all the way to Queensland, New South Wales or South Australia to be slaughtered. The cattle lose a great deal of weight and condition during transportation and we as the seller therefore lose a lot of money, as we are paid on weight. We often receive very little return for our animal, as the costs far outweigh the price we receive. We fear that there could be animal welfare issues generated by people being forced to transport their cattle such long distances, particularly when they are under financial pressure.<sup>92</sup>

5.84 Other witnesses argued that the establishment of processing facilities would provide cattle producers with greater certainty and stability, particularly in the context of the Indonesian Government's policy to move toward greater self-sufficiency. Dr Linda Fleeman submitted that the live cattle trade to Indonesia could be:

... halted abruptly and arbitrarily at any time by Indonesia (or other importing countries) and Australian farmers have no 'fall-back position'.<sup>93</sup>

### ***Challenges associated with establishing meat processing facilities in northern Australia***

5.85 The committee also received evidence to suggest that there were a number of factors which would make it difficult to re-establish viable processing facilities, particularly in northern Australia.<sup>94</sup>

5.86 The CCA submission noted that a number of private and Government-operated processing facilities in the far north and north-west of Australia have closed. The CCA argued that these closures had largely stemmed from the high per unit cost of production, and that the highly competitive nature of the meat processing sector.<sup>95</sup>

5.87 The CCA submission cited a 2010 feasibility study conducted by the Western Australian Beef Council<sup>96</sup> which identified a number of potential limitations to the financial success of a processing facility, including:

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92 Ms Emily Brett, *Submission 272*, p. 2.

93 Dr Linda Fleeman, *Submission 114*, p. 3.

94 See, for example, Mr Larry Graham, *Submission 128*, Ms Kelsey Neilson, *Submission 131*, Mr Eric Britton, *Submission 135*, Pastoralists and Graziers Association of Western Australia (Inc), *Submission 194* and Ms Sally Witherspoon, *Submission 230*.

95 Cattle Council of Australia, *Submission 118*, p. 10.

96 Western Australian Beef Council, *North West Western Australian Beef Abattoir, Pre-feasibility Study*, Final Report prepared for the Department of Food and Agriculture, Western Australia, 2010.

- **Numbers** – to be feasible, an abattoir in the north-west would need a throughput of 400 animals per day – the equivalent of 75 per cent of live exports from that region.
- **Weights** – there are economies of scale in processing heavy carcasses, and it is costly to add weight to animals in remote areas of northern Australia. A successful processing sector would require a successful backgrounding and feeding sector to supply consistent numbers of suitable weight animals. This would be a major structural adjustment for the industry.
- **Labour** – attracting and retaining skilled labour is a major impediment. The processing sector already relies heavily on skilled migration and long stay visa programs to meet labour requirements. Likely centres for processing facilities such as Broome and Darwin are also high cost centres.
- **Seasonality** – the highly seasonal nature of weather patterns in the north and the impact of this on roads and access – and therefore cattle supply – impact on the viability of processing.<sup>97</sup>

5.88 These concerns were echoed by Ms Raelene Hall, a cattle producer from Western Australia, and Ms Jenny Deveraux, a cattle producer from the Northern Territory.<sup>98</sup> Ms Hall argued that apart from the initial problem of finding investors willing to invest in an abattoir:

Finding workers for abattoirs was and will always be a problem especially when competing with the mining sector for workers. They can't compete financially in terms of the type of work on offer and the benefits. Are they going to be able to process the numbers that may come in during the northern dry season? Are consumers going to want to eat the Bos Indicus breeds from the north – research and history shows not. Will a glut force prices down until selling stock becomes unviable? More than likely.<sup>99</sup>

5.89 Ms Deveraux noted plans to establish an abattoir in the Northern Territory and argued that:

Whilst this is a welcome development, the facilities as I understand it, will be tailored to take that company's surplus and out of specification cattle. A viable long-term solution still needs to be identified to take surplus stock, out of specification (heavy cattle, bulls, buffalo, cull cows etc) to provide industry with alternative[s] and certainty.<sup>100</sup>

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97 Cattle Council of Australia, *Submission 118*, p. 10.

98 Ms Raelene Hall, *Submission 188*, p. 3 and Ms Jenny Deveraux, *Submission 225*, p. 6.

99 Ms Raelene Hall, *Submission 188*, p. 3.

100 Ms Jenny Deveraux, *Submission 225*, p. 6.

5.90 These concerns were also echoed by Ms Jo-Anne Bloomfield who noted that the abattoir is only expected to offer 10 per cent processing capacity for animals outside of its own operations.<sup>101</sup>

### *Current proposals*

5.91 During this inquiry, the committee heard of two proposed meat processing facilities currently under consideration. The committee notes that both of these proposals are intended to complement the existing live export trade.

5.92 Mr David Farley, the Chief Executive Officer of the Australian Agricultural Company told the committee that the company is proposing to build an abattoir near Darwin. Mr Farley told the committee that there two primary reasons behind the company's decision, including

- improved management of breeding age cattle (the company's goal is to lift the herd's fertility by getting the older, non-productive cows out); and
- saving on the logistic cost of sending cattle south (which currently costs the company between \$160-\$200 per head).

5.93 Mr Farley told the committee that:

The proposal is to run the plant for seven months on a double shift and then four months on a single shift, starting very early in the morning, finishing before lunchtime. That is the shift through the wet season. Our enterprise has the ability to stage cattle. We have geared our enterprise and now, with the use of the northern flood plains, the use of improved pastures, the use of cavalcade and the new grasses in the north, we will be able to position the cattle in the north for slaughter through the wet season.<sup>102</sup>

5.94 Mr Burton told the committee that his company is a proponent to build an abattoir in the Derby Shire.<sup>103</sup> Mr Burton described the proposal as a boutique abattoir and told the committee:

We have got a pilot project that will be completed in two months. That will kill 15 a day. It is a pilot project to test out our markets. We expect that within 24 months we will have built a facility that will kill 100 to 120 a day. So it is complementary to the live export, not in replacement of it. ... Basically the opportunity exists for someone to process animals that are not suitable for live export. That 20,000 to 30,000 head a year will be animals

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101 Ms Jo-Anne Bloomfield, *Submission 226*, p. 10.

102 Mr David Farley, Australian Agricultural Company Ltd, *Committee Hansard*, p. 52.

103 Mr Jack Burton, West Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 52.



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that are not suitable for live export. That is what the whole focus of this facility will be.<sup>104</sup>

5.95 A 2010 feasibility study noted interest in the establishment of processing facilities in northern Western Australia. However, the study also noted the challenges facing such a facility, particularly given the seasonal nature of supply and the variability of throughput. The study concluded that a facility in northern Western Australia would not be viable without active Government support.<sup>105</sup>

5.96 The study also noted that the greatest value of an abattoir accrues to producers in the immediate region and diminishes with the distance that needs to be covered by live animal transport. The study also recognised the need for the industry and governments to continue to investigate options for stimulating commercial development of processing streams within the northern and western production area, and that there would be flow-on effects in the form of throughput for southern processing facilities.<sup>106</sup>

5.97 The committee considers that such facilities would complement the existing live export trade and provide a valuable alternative option for producers which could, in turn, lessen northern Australia's dependence on the Indonesian trade.

### **Committee view**

5.98 The committee notes the significance of the live export industry to the Australian economy and to regional economies in particular. The committee notes that it is a significant source of employment in these communities, both directly and through ancillary industries.

5.99 The committee also considers that there are key synergies between the live export industry and the domestic meat processing industries. The committee is not persuaded that phasing out of the live export industry will reinvigorate the domestic processing sector. The committee considers that there is more to be gained from working to understand and strengthen the complementary relationship between the two industries.

5.100 However, the committee agrees that cattle production in northern Australia is too heavily reliant on the live export trade and, as the events of the last six months have demonstrated, is currently very vulnerable.

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104 Mr Jack Burton, West Kimberley Producers' Group, *Committee Hansard*, 1 September 2011, p. 54.

105 RIRDC, *Feasibility of Establishing a Northern WA Beef Abattoir*, RIRDC Publication No. 10/214, November 2010, p. vii.

106 RIRDC, *Feasibility of Establishing a Northern WA Beef Abattoir*, RIRDC Publication No. 10/214, November 2010, p. vii.

5.101 The enormity of the challenge of providing effective and meaningful assistance to the industry, following the temporary suspension of live exports of cattle to Indonesia is reason enough to ensure that this type of crisis is not repeated. While the committee acknowledges that the government assistance to date has been appreciated by some, for many it has proved poorly directed and inadequate to the task of surviving the massive jolt that the industry has sustained. The committee notes that the effects of this jolt are likely to be felt for some time to come.

5.102 The committee considers that the Australian Government must continue to work closely with the industry and communities to support producers and businesses through what is expected to be a long period of recovery.

5.103 At the same time, the committee considers that steps must be taken to provide a more secure basis for the industry through the diversification of market options for northern cattle producers. The committee considers that the establishment of meat processing facilities such as those proposed for Darwin and Broome offer the key to such market diversification, by offering greater accessibility to processing markets for older and heavier cattle.

5.104 The committee notes that the establishment, or re-establishment, of processing facilities in northern Australia is not without significant challenges and notes that the 2010 Western Australian feasibility study concluded that a meat processing facility in that state would not be viable without active government support. However, the committee considers that the recent crisis has demonstrated clearly that it is absolutely essential that the industry and all levels of government continue to investigate options for the development of commercial processing streams within northern Australia in addition to existing live export markets.