



INQUIRY INTO AUSTRALIA'S TRADE AND
INVESTMENT RELATIONSHIPS WITH
COUNTRIES OF THE MIDDLE EAST
AUSTRALIAN LIVESTOCK EXPORTERS' COUNCIL

MAY 2014

Terms of Reference

The Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Australia's trade and investment relationships with countries of the Middle East will consider;

- the nature of Australia's existing trade and investment relationships with countries of the region;
- emerging and possible future trends in these relationships;
- barriers and impediments to trade and investment with Middle Eastern countries for Australian businesses, including examination of supply chain costs;
- opportunities for deepening existing commercial and cultural links, and developing new ones, with the countries of the Middle East; and
- the role of government, including DFAT and Austrade, in identifying new opportunities and assisting Australian companies to access existing and potential opportunities in the Middle East.

Acknowledgements

The Australian Livestock Exporters' Council contracted Agricultural Connections Australia Pty Ltd to contribute to this submission by researching and presenting a report addressing the terms of reference of the inquiry, with particular focus on:

1. Emerging and possible future trends
2. Barriers and impediments to trade and investment, including;
 - Culture and Religion
 - Government Regulation and Engagement
 - Sharia Law
 - Competition
 - Animal Welfare
 - Sovereignty
3. Improving Commercial and Cultural Links

Contents

Terms of Reference	1
Acknowledgements.....	1
Introduction	3
Australia's Livestock Trade with the Middle East	4
Sheep	4
Cattle.....	4
Trade Statistics.....	5
CASE STUDY: HOW LIVE EXPORTS HELP UNDERPIN DOMESTIC LIVESTOCK PRICES?	6
Australia's Existing Trade and Investment Relationships	7
Investing in a more sustainable industry	8
Emerging and Possible Future Trends	9
Sheep	9
Cattle.....	10
Barriers and Impediments to Trade and Investment.....	11
Culture and Religion.....	11
Government Regulation and Engagement.....	13
Sharia Law	13
Competition	14
Animal Welfare	15
CASE STUDY: WELFARE IMPROVEMENT IN MENA	16
Sovereignty	17
Improving Commercial and Cultural Links	17
Examination of supply chain costs.....	18
Government cost recovery model inefficiency.....	18
Ports.....	19
The Role of Government.....	20
Actively Facilitate Trade and Market Access Opportunities	20
Provide ongoing Policy Security for the livestock export industry	22

Introduction

The pioneering history and future of the Australian livestock export industry has its strong roots in trading livestock in the Middle East region (MENA - defined for the purposes of this submission as including North Africa). Australia exports sheep and cattle (including dairy) by sea to a number of MENA markets. The region accounts for almost 100% of Australia's sheep exports globally. Cattle exports to the region are a much lower proportion of total exports at only 14% but are nonetheless important in underpinning demand and price in cattle markets around Australia. Dairy cattle, breeder sheep and cattle and camels have been exported in much smaller bespoke consignments.

As the peak industry body for the Australian livestock export industry, the Australian Livestock Exporters' Council (ALEC) is responsible for setting industry policy, providing strategic direction and representing its members at all levels. ALEC Members account for more than 95% of Australia's annual livestock exports. Our members include Australian Government licensed livestock exporters by sea and air of feeder, slaughter and breeder sheep, cattle, goats, buffalos and camels, as well as other supply chain participants including producers, registered premise operators, ship owners and other suppliers to the trade.

ALEC works with government, other peak councils and service organisations to establish policy positions which will assist the industry to continuously improve its performance for the good of the community, the economy and its stakeholders. Key partners are i) LiveCorp which is the service provider to the Australian livestock export industry (research and development, marketing, training and communication) and ii) MLA through the Livestock Export Program.

Achieving continual improvements in animal welfare is central to our industry's activities.

ALEC welcomes the opportunity to provide input into the Joint Standing Committee's consideration of Australia's trade and investment relationships with MENA countries.

The strength of Australia's trade with the region will continue to be underpinned by red meat exports – both boxed product and live animals. This is not an either or (i.e. boxed or live) proposition. The market wants both and Australia is in a position to supply both. Any action that would see Australia withdraw from the live trade would be detrimental to farm gate returns for producers, would shut down Australian companies with generational commercial relationships in the region and would negatively impact on Australia's image and sovereign risk.

ALEC believes that the MENA region has been, and will continue to be critical to Australia's livestock export industry. Our success in the region is built on a longstanding in-market presence as well as a deep understanding of cultural and religious influences on the business environment.

With this in mind, this submission considers the emerging opportunities in the market, the current trade barriers for the industry and the role of both industry and government in improving commercial and cultural relationships into the future.

Australia's Livestock Trade with the Middle East

Sheep

The establishment of the live sheep trade to the Middle East heavily reflected the increasing global demand for wool and the rising standards of living in Middle Eastern countries throughout the 1950s and 1960s. During this time, countries within the region were obtaining oil wealth, creating a building boom that attracted workers from a number of Muslim countries. Australia's sheep industry took advantage of opportunities to meet the increasing food demand created by the building boom, supplying live sheep that could be lawfully slaughtered by Halal methods. As a result, the demand for Australian sheep grew.

In December 1960, a trial shipment for 2500 Australian sheep was sent from Fremantle to Kuwait and early shipments to Kuwait are also recorded to have left from Adelaide. This was welcome news for Australian pastoralists, who benefited from access to an additional market for their sheep. Between 1969 and 1970, Iran was the largest importer of Australian sheep, taking 230,620 head.

As Australia's sheep export trade continued to expand, its success attracted interest from international shipping companies as well as Australian businesses and by 1970 the potential of the industry was evident. Australia's sheep flock grew to record levels and the success of the trade was increasingly important for the Australian economy, providing jobs, commercial opportunities and improving returns for domestic producers. The trade played its part as the economies of the Middle East changed. As oil revenues increased and the population boomed, red meat protein that met cultural and religious needs was in high demand. Meat consumption in the region more than doubled between 1970 and 1980.

Australian sheep exports to the Middle East rose from 800,000 head in 1973 to 4.8 million head a year by 1978. The trade continued to grow and at its peak in 2001, approximately 7 million sheep were shipped to the Middle East from Australia. Today the numbers of sheep exported have fallen to about 2 million annually, with Kuwait now the biggest buyer.

Cattle

While demand for livestock in the Middle East is dominated by sheep, a market for Australian cattle also began to emerge in the region very slowly in the late 1960s. In 1969, Kuwait imported 4 head but this expanded to a few thousand in later years. The Iran market developed in the mid 1970s, growing to nearly 9000 head in 1984/85. Saudi Arabia imported around 5000 head in 1987, but this dropped significantly before lifting to 20,800 cattle in 2001. In the 1990s, Libya and Egypt became major importers of Australian cattle; Libya bought 105,257 cattle in 1997, while Egypt took 241,214 head in 1999.

A decline in demand for cattle in South East Asian markets around 2010 and 2011 increased the importance of the Middle Eastern market for Australian cattle. Similarly to the demand for sheep, increasing beef consumption in the region was driven by rising wealth and population growth and in 2010 Egypt imported 56,441 head, Israel 43,212, Jordan 19,257, Libya 19,269 head and Saudi Arabia 16,501 head. Israel was the most stable market in the region throughout this time and remains the largest market in the Middle East for Australian cattle today.

Trade Statistics

In 2013, a total of 1,973,418 sheep were exported from Australia. Of this, 98% were imported into the Middle East. Kuwait was the largest importer of Australian sheep in 2013, taking 876,004 head and Qatar and Jordan were the second and third largest importers respectively, as highlighted in Table 1.

Table 1: Australian Live Sheep Exports – volume by key markets.

Country	2008	2009	2010	2011	2012	2013	MKT Share
Kuwait	956,276	948,271	1,076,455	956,642	706,644	876,004	44%
Qatar	269,116	352,695	321,415	395,752	531,894	560,762	28%
Jordan	383,943	470,511	265,986	217,067	327,960	287,792	15%
UAE	175,629	130,312	78,747	37,385	33,211	99,795	5%
Oman	741,106	289,223	69,073	41,025	19,892	58,476	3%
Israel	36,834	23,400	42,000	56,600	64,007	54,164	3%
Malaysia	26,128	20,588	19,000	15,903	18,864	27,969	1%
Singapore	8,761	7,637	7,401	6,399	3,933	4,772	0%
China	-	12	-	-	-	3517	0%
Other	1,617,196	1,324,960	1,088,494	731,175	572,211	167	0%
Total	4,214,989	3,567,609	2,968,571	2,457,948	2,278,616	1,973,418	100%
Total FOB Value ('000)	\$321,158	\$322,961	\$322,527	\$328,103	\$279,749	\$172,115	100%

Figures from MLA: *Australian Livestock Export Industry Statistical Review 2013*, February 2014

While remaining our dominant market, sheep exports to the Middle East have declined significantly since 2001. The reduced numbers may reflect the impact of;

- a shipment of sheep rejected from Bahrain in 2012, causing the Australian industry to place a suspension on live exports to that market
- the Exporter Supply Chain Assurance System (ESCAS) reducing demand in some MENA markets and causing a cessation of all live exports to the Kingdom of Saudi Arabia (KSA)
- the escalation in Australian sheep prices in the preceding years, encouraging competition from alternative supply nations

Turkey is the only market of any consequence to have been established for Australian live sheep in recent years, with sheep cargos topping up cattle shipments where excess shipping space was available. The Turkish Government liberated import policies for meat and livestock in 2010 which allowed Australian entry to the market with imports of Australian sheep being 224,285 head, 352,352 head and 245,147 head in 2010, 2011 and 2012 respectively. In 2013 Australian sheep exports to Turkey stopped, impacted by policy uncertainty. Duties imposed on cattle imports adversely affected shipping capacity for sheep.

Israel was the largest importer of Australian cattle in the Middle East in 2013, taking 98,320 head or 12% of total cattle exported from Australia. Jordan was the second largest importer in the region, taking 11,900 head in 2013. While South East Asia remains the largest market for Australian cattle, the Middle East (including Turkey) took 14% of total cattle exports, as highlighted in Table 2.

Table 2: Australian live cattle exports by region.

Region	2008	2009	2010	2011	2012	2013	MKT Share
South East Asia	679,682	804,318	558,916	453,893	351,900	595,220	70%
Middle East	119,462	96,738	225,693	133,767	143,226	122,685	14%
North Asia	32,537	48,837	72,769	68,604	67,193	76,046	9%
Other	36,829	4,250	17,538	38,532	57,099	56,972	7%
Total	868,510	954,143	874,916	694,796	619,418	850,923	100%

Figures from MLA: *Australian Livestock Export Industry Statistical Review 2013*, February 2014

The MENA region is an important outlet for a diverse range of cattle drawn from across the country. Demand is likely to continue to grow in existing markets and much work is being done to reopen former markets and commence exports to new MENA markets. Any additional competition from a growing MENA cattle trade will benefit Australian producers.

CASE STUDY: HOW LIVE EXPORTS HELP UNDERPIN DOMESTIC LIVESTOCK PRICES?

In 2011, the Centre for International Economics (CIE) completed an independent assessment of the value of Australia's livestock export industry. The CIE analysed the potential changes to market outputs, such as the price and quantity of livestock, should the live trade be closed. The analysis also looked at the impacts of this across Australia's entire livestock industry.

This report found that in the absence of a livestock export trade, Australian producers would be impacted significantly and negatively, stating that 'without live exports farm gate returns would be lower because of the lower demand for livestock and higher transport costs involved in transporting animals to alternative markets'¹.

The report found that:

1. On average, the livestock export trade significantly increases livestock prices across the Australian red meat industry and in the absence of the livestock trade;
 - the saleyard price of grass fed cattle would be 4% or 7.8 cents per kilogram lower, and
 - the saleyard price for the sheep industry would also be lower, with a drop of 7.6% or 12 cents per kilogram for lambs and 17.6% or 14.6 cents per kilogram for older sheep

In March 2014, Australian Wool Innovation Limited (AWI) commissioned the Centre for International Economics to undertake a research report considering the economic contribution of the livestock export industry, this time with a specific focus on Australia's wool industry. The report was developed to determine the impact of the trade on woolgrowers and was calculated by comparing 2011/12 market outcomes, such as production and price, with the outcomes that would have been realised in the absence of the livestock export trade.

Similarly to the findings of the 2011 report, the report found that:

The livestock export trade significantly impacts the saleyard prices across Australia

- In the absence of the trade, saleyard prices would decrease by \$4.07 per head or 4.5% for lambs and \$13.20 per head or 24.4% for older sheep i.e. prices for sheep would have been between \$4 - \$13 lower than observed in 2011-12 if the livestock export trade was closed.²

¹ The Centre for International Economics, *The contribution of the Australian live export industry*, 2011

² The Centre for International Economics, *Contribution of live exports to the Australian Wool Industry*, 2014

The recent CIE Report found that if Australia's livestock export trade was to cease, the impact on Western Australian producers would be 'devastating'³. A report developed to consider the impact of the livestock export trade on Australia's wool industry found that in the absence of the livestock export trade;

- state wool production would fall by 12%,
- the GVP of Western Australian wool producers would drop 6.5% or \$302.3 million from the recorded 2012 figures,
- the price paid by processors would default to that paid in the eastern states, less the cost of transport and it is expected that transport costs would be approximately \$25 - \$30 per head which would be borne by producers, and
- saleyard prices may fall by \$32 per head (or 35.1%) and \$36 per head (or 66.2%) for lambs and sheep respectively.

Australia's Existing Trade and Investment Relationships

Our submission earlier addressed the history of the livestock trade with MENA countries. That history is underpinned by a small number of exporters who actively built the trade. Today there are fewer than five livestock exporters servicing the MENA region. All have an in-market presence in the region, initially focused on commercial issues but more recently reflecting an increasing focus on animal welfare responsibilities along supply chains. Two exporters have now branched into boxed and meat exports to the region following the purchase of abattoirs in Western Australia.

On the other side of the trade relationship, there is a long history of investment by Middle East trading partners in the livestock export trade along the supply chain. This investment of many hundreds of millions of dollars in vessels and facilities to service the trade has afforded Australia a wealth of production opportunities. The sustainability of the trade is underwritten by these investors who have responded to their countries' need for live animals for food security.

The livestock export industry is serviced by over 20 vessels specifically designed, built or converted to carry cattle and sheep. Standards of vessels servicing the Australian trade are the highest in the world as a result of our strict requirements as specified in the Australian Maritime Safety Authority (AMSA) Marine Orders 43.

This year alone three new livestock carriers have been launched – two specifically for cattle, the third - a Saudi Arabian owned vessel designed for long haul routes to carry sheep, cattle and camels.

Across Australia a number of quarantine assembly depots which are an important part of preparing animals for the sea voyage are foreign owned. Middle East livestock traders have also invested in Australia in their preferred fat tail breeds of sheep. The biosecurity difficulties surrounding the importation of genetics and the fast tracking of breed and population development through artificial breeding techniques is an expensive exercise. Yet such costs did not dampen the enthusiasm of investors towards the Awassi ram lamb project. For 15 years this project has provided Australian farmers with an opportunity to produce a relatively high priced specialist product that was suited to the livestock trading model of many of our Middle Eastern markets. Sadly, this investment has been crippled by the Exporter Supply Chain Assurance System (ESCAS) and the future of this project is grim. The flow on effect to those producers, particularly in Western Australia has been devastating. Exporters remain hopeful that opportunities for fat tail breeds will return.

³ The Centre for International Economics, *Contribution of Live Exports to the Australian Wool Industry*. 2014

Investment strategies are not short term. The commissioning of new vessels takes 3-4 years from design, construction to launching. Costs run into the tens of millions of dollars. Similarly, land acquisitions and construction of infrastructure for export depots take months/years of planning, securing environmental approvals, etc. before they become operational.

Investing in a more sustainable industry

Exporter activities in the region are supported by in-market services from the Meat and Livestock Australia/LiveCorp jointly funded Live Animal Export Program (LEP). The LEP operates in accordance with the MLA and LiveCorp strategic plans to deliver outcomes against four key imperatives;

1. Ongoing improvement in animal welfare outcomes
2. Improved industry efficiencies, capabilities and livestock performance through the supply chain
3. Build government and community support for the industry and increase stakeholder awareness and satisfaction
4. Improve market access conditions and build demand for Australian livestock.

The LEP undertakes in-market training programs in animal handling and slaughter to support exporters and importers improve welfare outcomes and support compliance with the Exporter Supply Chain Assurance System (ESCAS). For many participants, this is the first time they have participated in formal or informal training. The recognition they receive for their new set of welfare skills can be a powerful motivator of better treatment of animals. If we are truly to make long term changes to welfare, then it starts with training that helps change attitudes and behaviours towards livestock. Critical is an understanding that livestock behaviour is not homogenous and knowledge and skill is required to handle Australian livestock. For an interesting analysis of this please read this piece written by the 2013 Cattle Council Rising Champion, Blythe Calnan <http://centralstation.net.au/the-aha-moment/>

These training programs promote ESCAS requirements, OIE guidelines and the adoption of Standard Operating Procedures. In 2012-13, training was delivered to 1100 participants in supply chains in MENA markets.

The LEP has developed standardised training programs for cattle and sheep to deliver uniform training against SOPs along the supply chain. The relevant modules included port, transport, feedlot, lairage, slaughter with stunning, slaughter without stunning and animal handling.

Critical to standardised training is a 'train the trainer' module that helps leverage industry's efforts to improve animal welfare by embedding animal welfare training capability in the markets receiving Australian livestock.

For a number of years, a key activity of the LEP in-market work has been to provide additional support for key festival periods including Ramadan and Eid al Adha. These religious festivals represent a high risk period for unsatisfactory animal welfare practices being applied to Australian sheep, cattle and goats in overseas markets and potential leakage outside approved supply chains. The focus of LEP activities is to provide greater assistance to exporters and supply chains to help build secure livestock handling systems and management structures.

The Australian livestock export industry, through exporter efforts including the work of the LEP outlined above has brought about significant, lasting change in animal welfare, animal handling, slaughter and food safety in its MENA markets. We recognise that we have not yet finished our task but note that the significant improvement in welfare standards achieved through positive and direct

engagement and patience and persistence in delivering tailored training and education programs in market. No other country that supplies livestock to MENA has an after sales program to ensure the ongoing welfare of the livestock they have supplied. Although challenging – recent well publicised incidents remind us of this - the Australian industry programs continue to work with MENA clients and governments to deliver OIE standard animal welfare outcomes and where and when possible, this will include pre slaughter stunning.

The implementation of programs such as these requires careful and considerate delivery so that the government of the importing country is a part of the journey. Australian industry has been very successful in engaging with importing governments so that they too recognise the benefits that flow from good animal husbandry and handling.

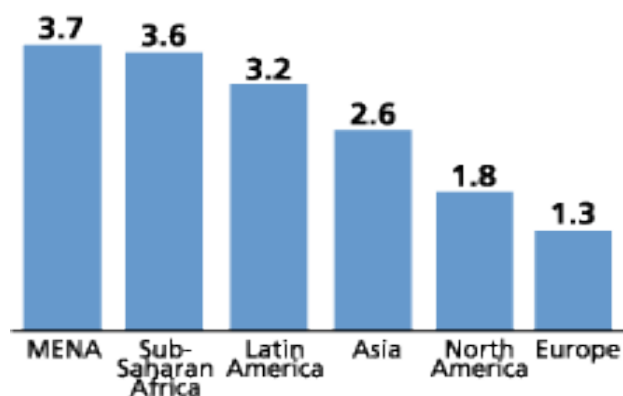
The single biggest livestock export challenge for the Australian industry and Australian Government in MENA is to deal appropriately with the perception of the Government of the Kingdom of Saudi Arabia (KSA) that Australia is colonising its regulatory environment into Saudi. This is a direct result of Australian Government policy and its implementation – in part by failing to recognise the store and import placed on the Memorandum of Understanding between Australia and KSA on live exports and the sensitivities of a non-Muslim nation critiquing what Saudis believe are cultural and religious practices.

Emerging and Possible Future Trends

Sheep

Iraq and Iran are emerging markets that have shown significant interest in importing Australian sheep. Animal health protocols are under negotiation but the underlying demand for sheep meat, above domestic supply, and the preference and premium for fresh slaughtered product has been well established. Both countries present challenges with logistics and supply chain management which will be more readily overcome in Iran than Iraq.

Shrinking domestic supplies will continue to plague many of the MENA countries as they deal with real growth in demand through increasing per capita red meat consumption and population growth, as outlined by Graph 1.



Graph 1: Ratio of Population Size in 2000 to Population Size in 1950, by Major World Regions

Source: United Nations, World Population Prospects: the 2000 Revision, New York, United Nations 2001

It is likely that demand pressure and shrinking supply will result in sustained price increases for livestock in the MENA region. It is likely this will flow through to supplying nations and will impact on the commercial viability of imports of livestock and meat in individual markets as increasing prices test each market's capacity to pay.

Current MENA markets impose little or no import duty on livestock imports and in some cases live imports attract government subsidies. Qatar and Bahrain still provide financial support to livestock importers or processors to reduce the cost of fresh meat to the public sector whilst Kuwait abandoned its subsidy program recently.

Recent trade history has shown that not all of Australia's traditional MENA sheep markets have the capacity to pay the premium that is needed to support the import of Australian live sheep when their cost significantly exceeds competing product, namely:

- Chilled or frozen imports including of Australian origin
- Livestock of other origin (predominantly Horn of Africa)

The Australian sheep flock has more than halved in just over two decades to be 74.7 million head in 2012.⁴ Western Australia typically supplies the majority of Australian sheep exports, in 2013, 83%⁵ and has suffered a similar drop in flock numbers from some 40 million sheep in 1989 to less than 15 million in 2014.⁶

Australia, New Zealand and Uruguay are the only countries that:

- Have sheep flocks that exceed domestic demands by any significant extent
- Are free of notifiable diseases and maintain robust animal health programs
- Have dominated live-sheep supply to MENA, other than from Africa

All three countries have experienced a similar drop in domestic sheep flocks driven by poor returns (sheep meat and wool) and competition from other more profitable and sometimes less arduous agricultural pursuits, predominantly, cropping, dairy and beef.

The Horn of Africa nations are Australia's strongest competitor for supply of sheep to the MENA region. The animal health status of these countries is much lower than their Western competitors, there is little or no regulation of the trade and they are geographically advantaged to be able to deliver livestock with a much lower transport cost.

It seems most likely that a sector of the MENA market will continue to demand Australian livestock and will be prepared to pay for it. As worldwide sheep supplies tighten the price of Australian sheep and lambs will rise. This will be a global phenomenon. Those countries that value the health status of their livestock imports and are prepared to support their importers through subsidies to ensure that fresh, locally slaughtered halal meat is available at affordable prices will continue to underwrite sheep exports from Australia.

Without the entry of new markets or the resolution of ESCAS issues with one of Australia's former largest markets, the KSA, export volumes will settle at or near current levels of 2 million head.

Cattle

Prior to the implementation of ESCAS, Australian cattle exports to the MENA region were expanding across a number of markets with cattle being delivered to over 10 MENA countries. The diverse mix

⁴ ABS Agricultural commodities - figures for 30 June 2012

⁵ Australian Livestock Export Statistical Review 2013

⁶ MLA fast facts 2013 Australia's Sheepmeat Industry

of markets and specifications are extremely complimentary to cattle production in Australia with MENA destined cattle being sourced from across the country. With ESCAS limiting some markets, cattle exports to MENA have fallen with the only volume markets in the region being Israel, with 80% and Jordan 9.6% of the 2013 trade.

There is opportunity for cattle exports to resume to key markets such as Turkey and Egypt given the right mix of market conditions and ESCAS compliant supply chains. Egypt, unlike most of her MENA neighbours, has historically been a beef market, importing large consignments of cattle to supplement domestic cattle production. Although price and politically sensitive, Egypt has the demonstrated capacity to import up to 200,000 cattle per annum. In addition, Iraq and Iran have shown the same interest in cattle as they have sheep. Saudi was developing into a small but significant destination for feeder cattle with subsidised livestock feed allowing imported Australian cattle to be held in Saudi feedlots for periods of 180 days plus.

As sheep prices escalate, the opportunity to market more beef and therefore live cattle, increases. As recently as 15 years ago, the live weight cost of sheep in the Middle East was approximately 50% that of cattle. In 2014 the cost per kg of sheep, on a live weight basis, exceeds cattle significantly with the sheep price likely to continue to rise faster than that of cattle, in our view driving an increasing demand for cattle from the most price sensitive market sectors.

Demand for Australian cattle is likely to continue to grow in existing markets and much work is being done to reopen former markets, as well as commence exports to new markets in the MENA region. With supply of cattle in Australia contracting due to the effects of drought and a resurgent South East Asian trade, any additional competition from a growing MENA cattle trade will ensure strong demand for suitable cattle which will benefit Australian producers.

Barriers and Impediments to Trade and Investment

The MENA region presents many challenges to the Australian livestock sector, including many underlying religious, cultural and commercial factors. The Australian livestock export industry has come to understand how to work in this environment and has achieved remarkable success in changing attitudes and delivering quality outcomes. The industry will continue to deliver programs for the benefit of all livestock and consumers in the MENA region.

Culture and Religion

The MENA region is dominated by the significant influence of Islam and the cultural legacy of, for the most part, being less than a century removed from nomadic, Bedouin or tribal culture. The Kingdom of Saudi Arabia casts a powerful shadow over her MENA neighbours through being the custodian of the Two Holy Mosques, the most revered of sites for the world's 1.6 billion Muslims, who comprise 23% of the global population.

Religion and culture in the region are so intertwined that at times it is not possible to determine where one stops and the other starts. This is more so in the fundamentalist states than secular countries (such as Turkey) but nonetheless, long standing traditions and religious practices influence, if not dominate, almost every aspect of life in the MENA region, including the way in which business is conducted.

Religion and culture have a significant influence on the value of and requirement for livestock in all Muslim countries, none more so than the KSA. As the destination for many millions of religious pilgrims each year, the KSA imports several million livestock for religious slaughter as well as for commercial purposes. All other MENA countries have similar requirements for livestock for religious sacrifice. Wealthier states support the import of livestock during this period to ensure that the religious needs of the population are met. In the last several years, since the Arab Spring, this has become even more of an issue for those states focused on keeping increasingly restless populations satisfied.

In handling and processing livestock, the Quran determines a number of requirements and practices that can be at odds with Western ideals:

- The strict procedural requirements for the act of slaughtering animals is dictated by Islamic law and aims to minimize pain and distress to the animal while purifying the meat for human consumption. The draining of blood from the slaughtered animal is essential to the purification of the meat.
- More traditional aspects, such as the requirement to slaughter the animal by one's own hands or to witness the act, may conflict with the realities of today's society and could lead to violations of the strict slaughter practices prescribed by Islamic law. Similarly, the sheer number of animals slaughtered as part of the Feast of Sacrifice may prevent the strict adherence to Islamic laws.
- Islamic religious traditions may be misinterpreted as cruel by Western observers and even be in conflict with contemporary laws such as those regulating Australia's live animal exports. This is increased by the charitable aspect of the Islamic act of sacrifice, which potentially places control over these animals in the hands of the disadvantaged who often do not possess the required knowledge of acceptable slaughter practices
- The sacrificial slaughter of animals is prevalent in many MENA countries, some of which predate Islamic traditions. Accordingly, slaughter practices may be based on both Islamic and local custom, which could further deviate from the slaughter practices prescribed by Islamic law aimed at minimising the impact on the animal.
- The public nature of celebratory events and the charitable nature associated with religious sacrifice further complicate the application of strict Islamic law

These issues are sharpened during Ramadan, Eid Al Adha and Hajj and while similar practices are performed in Australia by our Muslim communities, they still represent for many Australians a starkly different approach and mindset to the role of livestock in our society.

It should be noted that the slaughter practices that have evolved from the Quran were in themselves aimed at delivering food safety centuries ago, in countries that for the most part suffer from a sustained, hot, summer. This is still the case today in many remote parts of MENA, where fresh Halal slaughtered meat is sold and cooked without having ever been refrigerated.

This leads to the issue of freshness which has a different connotation in the MENA region to that of Australia. What is considered fresh is not a chilled product but rather a live product that the purchaser has seen slaughtered or indeed purchased from a market within hours of local slaughter. Such cultural factors are not replaceable by a boxed or chilled product.

At the cross roads of civilization for thousands of years, the people of the MENA region have generations of trading history and experience to draw on and are known to be extremely tough to deal with. They also have a reputation of being true to their word once they have committed to a deal, whether this is contracted or agreed on the shake of a hand.

Business in the MENA region is often conducted in the afternoon or evening with meals often commencing after midnight. Meetings are usually brief and complex issues may need several

meetings over a number of days to resolve. Alternatively some meetings can last for many hours with the host conducting an open court, dealing with many clients, staff and issues at the same time.

Westerners conducting business in the MENA region need to have an awareness and respect for the Islam religion, be incredibly tolerant and understanding of the fact that they are doing business in a country that is vastly different to that from which they have come.

Government Regulation and Engagement

The MENA region comprises a complex mix of states and governments requiring a significant understanding of each country for anyone dealing in the many jurisdictions. Religion and culture, with some variation, are common throughout the region but the commercial environment and the way that government interacts with business is vastly different to the West and varies greatly from country to country.

Some of the MENA states are governed by vast and somewhat cumbersome bureaucracies which have created layers of regulation which even local businessmen find hard to comprehend. Anything requiring approval by municipal, city, provincial or national government is unlikely to progress quickly, or at all, without the influence of a significant and well-connected local partner.

In other MENA states, particularly poorer nations, corruption is common and can work both for and against business interests. Spending significant time in market with the people that you are dealing with is the only way you can be sure of their intent and honour relative to your business and the way in which it is being processed through official channels.

Government in the wealthy MENA states is typically headed by nationals with increasing numbers of expatriate workers filling roles as the importance of the duties diminish. In some states many of the field veterinarians employed at ports and slaughterhouses are expatriates brought in from Sudan, Egypt, Syria, India, Pakistan or Bangladesh. This can mean that senior officers within departments have little or no connection with the realities of what is happening at an operational level as they believe that it is below their status to attend to such matters.

The menial task of livestock handling and slaughter is almost always in the hands of the lowest paid and least educated. These expatriate workers are often untrained when employed and very few livestock operations in the MENA region have any training programs in handling and slaughter technique other than those provided by the Australian industry. Having a long term presence in the MENA market, Australian training and education programs are well recognised and respected. Even in the most established operations, however, training and education programs are still required, given the nature of the market and the turnover of personnel...

In many cases, ministers and senior bureaucrats are part of, or connected to the families that rule the country. In some instances this results in uncertainty over policy which can make clarity over the government's position on any one matter difficult to determine.

Sharia Law

Sharia law applies over much of the MENA region and plays a significant role, particularly in those countries where it is the base for judgment of criminal cases additional to its more passive application to personal matters. Saudi, Yemen, Sudan, Iraq and Iran apply Sharia law in full; other MENA countries only apply Sharia law to matters related to marriage, divorce, inheritance and child custody and Turkey does not recognize or apply Sharia law.

Sharia judicial proceedings have significant differences with other legal traditions, including those in both common law and civil law. Sharia courts traditionally do not rely on lawyers; plaintiffs and defendants represent themselves. Trials are conducted solely by the judge- there is no jury system. There is no pre-trial discovery process, and no cross-examination of witnesses.

Unlike common law, judges' verdicts do not set binding precedents , and unlike civil law, Sharia does not utilise formally codified statutes. The rules of evidence in Sharia courts also maintain a distinctive custom of prioritizing oral testimony. A confession, an oath, or the oral testimony of a witness are the main evidence admissible in a Sharia case; written evidence is only admissible when deemed reliable by the judge. Testimony must be from at least two witnesses, and preferably Muslim male witnesses, who are not related parties and who are of sound mind and reliable character.

In lieu of written evidence, oaths are accorded much greater weight; rather than being used simply to guarantee the truth of ensuing testimony, they are themselves used as evidence. Plaintiffs lacking other evidence to support their claims may demand that defendants take an oath swearing their innocence; refusal thereof can result in a verdict for the plaintiff.

Sharia's rules on written evidence necessarily diminish the utility of written contracts to structure economic relations. Given the significant difference in the structure of law and justice in much of MENA, it is imperative that any Australian active in business in the region has an understanding of the principles of Sharia law.

Competition

The Horn of Africa, South America and Eastern Europe are our competitive suppliers of livestock to the MENA Region. Sudan, Somalia and Ethiopia have significant livestock populations and export large numbers of cattle, sheep and goats to the Arab States of the GCC. Reportedly, Sudan carries 41 million cattle, 43 million sheep and 51 million goats⁷; Somalia carries 4 million cattle, 12 million sheep and 18 million goats⁸ and Ethiopia carries 49 million cattle, 25 million sheep and 22 million goats.⁹ Almost all livestock production in the Horn of Africa is based on small holder grazing, has a low cost of production and the highest returns are obtained from livestock delivered into the live export supply chain. These three countries supply large numbers of mainly light weight animals into the KSA and other GCC states and in 2014 almost all KSA imports are being sourced from the African Red Sea Coast.

Livestock sales in the GCC are based on per head prices, the light weight, breed similarity and proximity to market make Horn of Africa sourced stock affordable and desired in many of Australia's MENA live export markets.

Uruguay supplies sheep, beef and dairy cattle to export markets around the world including the MENA region. The Uruguayan sheep flock has reduced significantly in the last two decades and it is increasingly difficult for Uruguay to fill the larger vessels that provide efficiency in transport costs for the long voyage from Monte Video. Combined shipments of beef cattle and sheep help to overcome this problem and allow Uruguay to continue to supply a limited number of shipments of slaughter sheep and cattle to the MENA region.

⁷ Policy Brief Intergovernmental Authority on Development, *The Contribution of Livestock to the Sudan Economy*, 2011

⁸ FAO Livestock Trade in the Djibouti, Somali and Ethiopian Borderlands 2004

⁹ www.ata.gov.et/programs/value-chain-programs/livestock

Brazil, with a cattle herd in excess of 200 million head, is the major competitor for supply of slaughter cattle to MENA, particularly Egypt and Lebanon. Brazil's animal health status continues to restrict access to many markets as only a limited number of states are bluetongue (BT) free zones. Brazil also has a large domestic consumption of beef which absorbs much of the country's production. Although difficult to achieve due to the geography of the country, a significant gain in BT freedom in the northern states would allow many millions more cattle to be eligible to export to markets currently supplied by Australia. Colombia, Argentina and Chile all have some livestock export capacity, although limited at this stage.

There is some trade in livestock between Arab States although this is diminishing as domestic Arab herds and flocks decline and domestic demand grows. Syria was a major supplier of livestock to the KSA and Gulf States. However the Syrian livestock population has been decimated as a result of the civil war that has raged in the country since 2011.

Eastern Europe and the EEC do supply small consignments of livestock to the MENA region. However volumes are low. Romania, Bulgaria and Georgia produce livestock that are suitable for MENA markets but suffer from low herd and flock numbers, increasing domestic demand and have access to Europe as an alternative market.

Ireland has recently recommenced exporting live cattle to the MENA region as highlighted in an AgriLand article released in January 2014 which stated that *"An important feature in the livestock trade was the resumption in exports to Libya, which accounted for almost 15,000 cattle along with 21,000 sheep up to the end of November. Other North African markets included Tunisia (4,000 head) and Morocco (1,300 head)."*¹⁰

Europe will continue to supply livestock to the MENA region in small consignments, given the long history of the trade from Europe and the proximity to MENA markets, particularly North Africa and the Mediterranean Coast.

It is important to note that Australian livestock export regulations are the most onerous in the world and place Australia at a significant commercial disadvantage compared to all other countries supplying livestock to MENA markets.

Animal Welfare

Although now enshrined in the GCC through the Animal Welfare Law approved by the GCC Supreme Council in November 2011, the welfare of livestock and other animals in the MENA region is not given the same priority that it is in Australia. In large commercial operations there have been major advances in the governance of animal welfare, particularly those that import, handle and slaughter livestock from Australia. This is a result of the last three decades of work by the Australian industry in developing facilities and training in livestock import operations in the region. ESCAS has provided a further layer of oversight and regulation for Australian livestock imports in all markets including those in MENA. No other country supplying the MENA region applies any standards to the welfare of their livestock shipments in transit or post-delivery.

The Australian livestock export industry has been incredibly successful in influencing improvements in animal welfare outcomes in the MENA region. This is a direct result of extensive industry programs in all of the markets that Australia supplies and is the culmination of three decades of market presence. Whilst animal handling and slaughter have been progressed to international standards (OIE) there is still a need for the continuation and monitoring of programs in the MENA region. In many cases the importing companies have been able to witness improvements in efficiency and financial performance as a result of changes in animal welfare management through

¹⁰ www.agriland.ie/news/live-exports-increased-by-11-to-e240m-in-2013/

Australian industry programs. These results have come through the Australian industry gaining an understanding of all of the underlying issues and then patiently working with importers and their governments to achieve change whilst respecting the culture and beliefs of the incumbent system.

The major significant hurdle still to be overcome is the implementation of pre slaughter stunning in MENA markets. As the practice of stunning is open to many different interpretations under the requirements for “halal” slaughter, it is a particularly challenging issue. Cultural and geographical differences together with the fundamental denominational divide between Sunni and Shia evidence the complexities that need to be understood when dealing with any matter which is subject to Sharia Law. Pre slaughter stunning is not a requirement to meet OIE standards making the argument for it to be implemented even more vexing.

Culturally, livestock form an important part of the day to day life of many MENA citizens. Less than a century ago livestock was the only real determinant of wealth in most of the MENA region and this is still the case in many of the African states. In developed MENA, the cultural passion to own and farm livestock based on centuries of tradition combined with religious requirements is common.

As MENA populations urbanise, livestock ownership has become difficult for many; hence the development of an extensive livestock trading system in some markets and particularly in the KSA, where trading is part of the Bedouin culture. This is one aspect of the live export trade to the KSA that is extremely challenging. Encouraging the shift to trading meat or carcasses from trading live animals will require a concerted effort over a sustained period.

Unlike Australia, livestock production in MENA is mainly from small herds or flocks managed by “shepherds”. The animals are tame in comparison to Australian extensively grazed livestock and respond readily to commands from their handlers. Unknowing livestock handlers in the MENA region have been surprised by the “flight” instinct of Australian livestock and this has led to instances of poor handling through ignorance in the past.

In the main MENA livestock handlers respect the livestock in their care. However there can be instances of poor handling where unskilled and untrained employees are placed in animal handling roles.

CASE STUDY: WELFARE IMPROVEMENT IN MENA

Much is said about the state of animal welfare for livestock exported to the MENA region. The few instances of cruelty, sometimes extreme, sustained and horrific, are still too many. Even though the Australia trade has unique agreements with destination nations, and currently more than 99% of livestock arrives and is slaughtered humanely, according to world-accepted standards, we recognise and are striving for more improvements.

Exporters have long recognised we have issues that involve local skills, training and divergent cultural practices. Tens of millions of dollars have been invested in animal welfare over the 30 years of our presence in the region. We have achieved improvements in welfare over this time, more recently enabled through welfare assurance but as stated above recognise we have more work to do. These improvements include:-

1. Infrastructure improvement:

- a) Abattoirs – races, ramps and slaughter tables in Kuwait, v-restrainers in Bahrain and Qatar, cattle restraining boxes in Qatar, Jordan, Libya and Kuwait and a cattle stunner in Jordan
- b) Feedlots – provision of shade, water and feed bunks, improvements in yards, ramps and races

- c) Ports – discharge trainers in Oman, Saudi Arabia and Kuwait, yard panels in Kuwait, port shed renovation in Kuwait, port trailer upgrade in Israel
2. Training and technical advice across the region – in 2013-14 over 840 people participated in training activities three examples include:-
 - a) Three LEP consultants delivered Standard Operating Procedure training in Kuwait across five ESCAS approved slaughter facilities. Over 40 participants include management, butchers and general staff
 - b) 2013 Eid Al Adha programs were delivered in Jordan, Kuwait, Oman, Qatar and UAE. The LEP worked with key stakeholders (at the request of exporters) during the pre-Eid period to develop systems and facilities that assisted the control, sale and slaughter of livestock within ESCAS requirements. Support was also provided over the 4 day festival, with staff and consultants on-the-ground to ensure the planned systems were implemented and technical advice delivered directly to exporter representatives. In total 26 resources participated in the program
 - c) An ESCAS auditor training workshops was delivered to improve auditor assessment skills and understanding of ESCAS, OIE guidelines and compliance requirements
 - d) Another workshop brought together importer and exporter representatives, in market and welfare consultants and slaughterhouse managers throughout the MENA region to showcase and discuss the sheep SOP training material. Further to this it provided an opportunity to increase the skills and knowledge of the people within the supply chain that are responsible for overseeing that the ESCAS requirements are met by staff at an operational level

Sovereignty

Each of the countries in the MENA region operates under its own laws. The member states of the GCC have some common elements to the way they handle certain aspects of their governance but each maintains its own sovereign rights.

Australia has been able to work with and influence outcomes relative to Australian livestock exports to the MENA region with more success in some countries than others. Although little understood, the acceptance of ESCAS in most markets has progressed to allow the continuation of exports, albeit with some interruption and in some cases at lower levels. The KSA is the current exception. The issue of Australia prescribing animal welfare standards in the Kingdom is offensive to the Government and they have made this stance patently clear to the Australian industry and the Australian Government.

Finding the balance that ensures the correct standard of animal welfare outcomes in countries that have a significantly different culture has been a challenge that Australia has willingly taken up over the last three decades. In the main this has been achieved with the consent of the government of the importing country which has benefited from the transfer of knowledge and understanding provided by Australia. In some cases Australian industry support has included the supply or refurbishment of infrastructure and equipment.

Improving Commercial and Cultural Links

While significant work is currently underway in market, there are a number of opportunities for the Australian Industry and Government to work with importers and governments to further develop and entrench commercial and cultural links and continue to enhance the value and reputation of Australian livestock and the Australian livestock industry in the MENA region.

The FAO and other NGO aid programs have a significant focus on livestock productivity and health in many of the poorer MENA countries. The Australian livestock export industry delivers a wide range of support programs to many of its customer countries and has done so for the last three decades. The needs of each market differ greatly with most of the more developed countries now requiring support in more sophisticated areas of food safety and meat quality.

In developing MENA nations that are importers, or potential importers of Australian livestock, there is an opportunity to develop livestock or broader agricultural focused aid and development programs to strengthen industry and government relationships. Countries most suitable for the application of such policies are Egypt, Iraq and Libya, all of which have undergone significant civil upheaval in recent years. Assisting developed MENA nations with livestock population audits, implementation of electronic identification programs or animal health surveys are other areas where Australia could strengthen its relationships through a willing transfer of intellectual property and expertise.

Education and training in livestock management, animal health and animal production techniques in Australia for suitable personnel (commercial or government) from client markets is another service that Australia can provide. Such a program would build on existing relationships and provide additional expertise which would benefit all livestock in the country from which the trainees are drawn.

Joint industry and government forums or task forces have also evidenced the benefits of building relationships and understanding of commercial, regulatory and political matters related to Australia's live export trade. A joint Indonesia/Australia task force has been in place for some years and has provided the opportunity for many of the complex issues that particular trade has had to deal with, to be discussed in a regular and formal process.

Examination of supply chain costs

Over 100 nations from all parts of the globe are involved in the trade of livestock across international borders. As outlined in this submission, Australia is in direct competition with a number of large cattle and sheep producers to supply the MENA region.

Government cost recovery model inefficiency

The Australian livestock export sector has the highest cost structure imposed by government regulation and red tape globally – some of necessity to reflect the government and industry commitment to place animal welfare as a critical component of business but a substantial proportion the result of inefficient service delivery and business model structural problems.

Australia is leading the way in calibrating our concerns for the humane treatment of livestock to a regulatory and welfare standards based system for livestock exports. While all nations to which Australia exports are members of the international animal health and welfare body, the World Organisation for Animal Health (OIE), Australia has deemed it necessary to place the onus on livestock exporters to assure welfare along the supply chain to point of slaughter. This reflects Australia's implementation of its OIE commitments and concern that Australian exported livestock receive appropriate treatment during handling and slaughter. No other nation involved in the export of livestock has a welfare focused regulatory system from paddock to point of slaughter on the same scale as Australia. This places the Australian livestock sector at a competitive disadvantage to other supplier nations which to varying degrees place a much lesser importance on assuring welfare for their exported livestock.

But our commitment to deliver welfare is no excuse for inefficient bureaucratic systems that burden the trade is anti-competitive costs. The current business model (that is the fees, charges and service delivery processes of the Department of Agriculture) that underpins export certification, inspection and ESCAS compliance undermines our ability to compete in MENA.

By way of example, exporters are responsible for substantial indirect costs associated with the running of the Department of Agriculture. Exporters are required under the non-contestable current fee structure to contribute to the indirect/corporate overheads of the Department of Agriculture. The overhead costs – running at a rate of 35% of total budget costs – are extremely high for a relatively small program and increased by over 113% in one year (2010/11). There has been a lack of transparency around this issue which has been of great frustration to exporters.

In the current Cost Recovery Impact Statement, recently released for comment, the Department stated that, “Since LAE (Live Animal Exports) arrangements were last adjusted trade patterns have changed substantially and business activities have shifted.” The implication of this statement is that every time a trade pattern changes or a business activity shifts (whatever that actually means) that the Department’s cost recovery arrangements must be revised. This is illogical, inefficient and unacceptable as the reality is that the global economy (and trade patterns in MENA), in which the live export industry operates, is a totally dynamic environment that changes on a daily basis. Any cost recovery model that cannot accommodate these ongoing changes – and reflect the nature of business it is regulating – is flawed.

Unless there is substantial structural reform to the cost recovery model used by the Department of Agriculture, the Government’s commitment to improve agricultural competitiveness will be simply political rhetoric.

Ports

For the live shipping industry, port infrastructure and access is an issue of keen interest and poses a significant risk to the industry’s capacity to meet the growing demand for Australian livestock.

The livestock trade exports between 3 – 4 million head of livestock out of (at least) nine ports – Fremantle, Adelaide, Portland, Townsville, Karumba, Darwin, Wyndham, Brisbane and Broome. All but Townsville, Darwin, Brisbane and Wyndham service MENA markets.

The key areas of concern for the industry include:-

- Infrastructure investment – replacement and development
- Port access – user agreements, berthing protocols, congestion
- Further challenges – port pricing, urban encroachment and public perception

Infrastructure investment is an issue of major concern to industry due to the lead time required to get port facilities built or improved. Funding issues and red tape imposed by local, state and federal governments have been significant impediments to infrastructure spending. A good example of this is the political constraints over consecutive governments placed on the development of the Kwinana (James Point) facility in Western Australia.

Financing investment in infrastructure replacement and/or development is often complex due to the various ownership/financing models in place (mix of public and private sector investment that are managed by an overarching Port Authority).

Due to significant private investment from competing sectors (minerals and energy) into specialised port infrastructure such as pipelines, container cranes and bulk loading facilities, port authorities often prioritise vessels to these berths. In comparison, the loading of livestock onto vessels does not

require investment in fixed loading infrastructure. Therefore the perception may be that the industry is not contributing to investment which reduces equal loading opportunities.

Port access and congestion continues to cause enormous logistical risk to the industry. In at least two of the major export ports for livestock exports – Fremantle and Darwin, exporters have access to one berth only. At certain times of the year due to import policies of destination markets, exporters have acute needs over a short period of time that need to be accommodated but this is difficult with the very restricted berthing access for vessels.

Due to the private investment into specialised loading facilities, ports have reduced the number of berths available to livestock vessels or make berth availability conditional on the arrival of vessels that require the fixed loading facilities at that particular berth. The 'first in first served' policy appears to be the approach adopted by the majority of port authorities. However, this approach creates further uncertainties associated with the up-country logistics of planning a consignment, as delays are often not realised until within 48 hours of the planned loading time. This places unreasonable financial risks onto exporters, due to additional feedlot costs, quarantine, land transport commitments, etc.

Port congestion is often a significant concern to exporters, as berths are often congested with imported products from the previous vessel or nearby berth. This can impede the efficient loading of a livestock vessel to the point where loading needs to be suspended until the congestion is addressed.

In the longer term, port congestion could become a significant logistical risk and undermine industry's ability to take up growth. This would have a detrimental impact on producers who are in many instances just beginning to reap new rewards from a reenergised live trade after several difficult years.

Port pricing is another issue of concern. The ports used by the industry are geographically dispersed, multi-purpose, structurally different and operated as independent, self-supporting businesses wanting to recover fixed costs. These costs include harbour dues, berthage, electricity, water, waste disposal, security, pilotage, towage and provisioning.

These cost variations are mostly due to variations in the charges applied at different ports. An exporter's decision to use a particular port tends to be dictated by the availability of stock and limits an exporter's ability to use the least cost facility.

While industry operations are limitations to reducing port costs, the setting of port charges is not undertaken by an open, transparent and relatively competitive market. There have been reported instances where a particular port has charged double the standard charge, with no apparent basis for doing so. This raises concerns for industry both in terms of reasonable and fair charging for access and our capacity to absorb future increases in port charges if inadequate lead times are not afforded.

The Role of Government

Actively Facilitate Trade and Market Access Opportunities

Market access is fundamental to the sustainability and profitability of Australian livestock exporters, producers and supply chain participants and a policy that allows industry to be responsive in order to seize trade opportunities is critical to capture demand and build competition for Australian livestock.

Australia's livestock export industry relies on a close partnership with Government for support in improving market access. The implementation of ESCAS, while applying animal welfare regulation in all markets to which Australia exports slaughter animals, has come at the significant cost to market share, including a complete loss of market access to the Kingdom of Saudi Arabia, where no Australian stock has been imported since ESCAS was imposed on that market.

Industry welcomes the strong support of the Australian Government for the livestock export trade and the increased activity to boost the number of markets to which we can export. This support is reflected across all tiers of the Government from the energetic engagement by Australian Ministers on trade issues with their ministerial counterparts abroad, the in-market work of the Department of Foreign Affairs and Trade, Department of Agriculture and Austrade officers (supported by Australian based staff) to the powerhouse technical professionalism of the Department of Agriculture's Animal Biosecurity team is expected to deliver the livestock export trade a number of new market opportunities in the short term.

One key aspect of the livestock export trade is managing risk, particularly consignment rejection. The small number of consignment rejections in past years are writ large in exporters' memories. Following the Cormo Express incident, Australian Governments have used government to government Memoranda of Understanding (MOU) in MENA markets to mitigate the risk of consignment rejection, particularly those arising from foreign government actions (referred to as sovereign risk). MOUs were negotiated with Kingdom of Saudi Arabia, Bahrain, Kuwait, Jordan, Oman, Libya and Egypt.

In December 2013, the Australian Government made changes to the MOU policy, particularly in removing the requirement for MOUs in new markets. This was welcome in allowing easier access to some Asian markets where there was a low risk of consignment rejection. Industry, however was concerned that the policy's application in any new markets in MENA may heighten the risk of consignment rejection.

In existing markets where MOUs will remain, it is industry's view that the Australian Government will need to do more to keep the MOUs at the front of our trading partner's minds. This could take the form of an annual visit by Australian government officials to their counterparts in MENA countries to discuss how the trade is progressing, reinforce that the MOU is operating as expected and to refresh and reinforce everyone's minds about their obligations under those MOUs or agreements. If this is not done, knowledge of the MOU could be eroded over time.

At the time of the decision, industry wrote to the Minister for Agriculture and requested that, in the absence of MOUs the Australian Government must be prepared to vigorously defend its health certification processes and maintain strong diplomatic and political relationships to allow it to respond quickly to potential disputes The Australian Government must recognise the importance of integrating the risk management activities of the Australian Government and industry for MENA (particularly around engagement and relationship building with trading partners). This could include the establishment of a MENA Livestock Export Risk Management Sub-Committee under the Industry Government Implementation Group to consider such issues as:

- The development of a joint industry/government strategy and schedule for relationship building exercises/programs in the region;
- The personnel and resources available in the region and how these could be better integrated, coordinated or shared (including whole of government resources, e.g. DFAT);
- The potential for visits by Australian Government or importing government officials or ministers;

- Potential indicators for measuring the strength of diplomatic relationships with trading partners in MENA and the trigger points for immediate engagement; and
- Key dispute resolution options, including the potential involvement of the OIE or the need to better develop technical relationships (e.g. between Chief Veterinary Officers).

While Australian exporters will continue to focus on the management of commercial risks through the preparation of contingency plans to respond in the event of an emergency or dispute, where possible, Australia's livestock export industry will support the Australian Government in its sovereign risk management activities, particularly through the strong working and cooperative relationship between the Meat and Livestock Australia/LiveCorp Livestock Export Program (LEP) and the Agricultural Counsellor in MENA.

Provide ongoing Policy Security for the livestock export industry

All major political parties lining up to govern Australia must recognise the economic, regional and diplomatic significance of Australia's livestock export trade and provide policy security for the livestock export sector.

The Australian Government Agricultural competitiveness Issues Paper states that "The Government is committed to providing all businesses with the flexibility, certainty and confidence to innovate and compete in global markets".

Events over the past three years have left many of our Middle Eastern trading partners sceptical that Australia is committed to the livestock export trade for the long term.

What has largely been forgotten or ignored is that the Middle East has been an important market for Australian sheep since the 1970's. Extensive and close ties exist, yet there has been at times little to no consultation with importing country governments. The Australian Government is viewed as seeking to impose its ideals without working together with customers and importing country governments.

Food security is seen to be under threat, putting social stability at risk. As a direct response, importing countries are now opening up their borders to additional exporting countries and seeking other suppliers. This is challenging to Australia for several reasons. Australia becoming "too hard to deal with" unfairly threatens longstanding markets and it undermines our genuine efforts to work in markets with our customers to improve animal welfare.

Given the substantial production lead times and investment in shipping and supply chain infrastructure, industry needs certainty that it will not be shut down by the stroke of a pen.

One of the challenges for our political system is to provide long term policy certainty for all industries. The fractious nature of political debate, our shortening political cycle, and the retail nature of politics in a 24/7 news and social media cycle does not serve industry well. Well manufactured campaigns by noisy groups which set community perceptions that a bad incident within an industry is the "norm" sometimes win the day in this environment. Across agricultural industries, including livestock exports, industries are in a medium to long term process of better aligning industry performance and public attitudes, ethics and perceptions. There is real change underway by industry to genuinely demonstrate actions that meet social acceptance and earn the trust of the public. The outcomes of this process will not be immediate and so requires government to have the "guts" to see out the timeframes involved in industry reform, playing a long game in the interests of the nation.