



28 February 2014

Committee Secretary  
Senate Standing Committees on Rural and Regional Affairs and Transport  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Committee Secretary

In response to the Senate Standing Committee on Rural and Regional Affairs and Transport inquiry into industry structures and systems governing levies on grass-fed cattle, please find attached a submission from the Australian Livestock Exporter's Council.

Yours sincerely

Peter Kane  
Chairman

## **ALEC Submission to the Senate Inquiry into industry structures and systems governing levies on grass-fed cattle**

The Australian Livestock Exporters' Council (ALEC) appreciates the opportunity to provide comment on industry structures and systems governing levies on grass-fed cattle.

While the livestock export industry has a separate levy collection system, we work in close collaboration with producers, Cattle Council of Australia, state farmer/producer representative organisation, Meat and Livestock Australia and the livestock export industry's own service delivery body LiveCorp. Cattle producers are an essential component of the livestock export trade. Quite obviously without them we would have no livestock to export.

The sixty year commercial history of the livestock trade has seen producers and exporters working side by side to take advantage of the ever increasing opportunities to market Australian cattle around the world.

Livestock exports and domestic processing are complementary industries and together provide the best opportunity for producers to maximise their returns.

This submission focuses on core key issues relevant to the Committee's considerations.

1. Why investing grass fed cattle levies in the livestock export trade is good for producers
2. How grass fed cattle levies are invested
3. Whether cattle producers are receiving benefits from that investment

It is ALEC's conclusion that producers as participants in the livestock export supply chain are benefiting from the investment of their levies in the livestock export industry through direct improvements that go to the heart of the live cattle trade's sustainability and profitability.

### **Background on ALEC and the livestock trade**

The Australian Livestock Exporters' Council (ALEC) is the peak industry body for the Australian livestock export industry. ALEC is responsible for setting industry policy, providing strategic direction and representing its members at all levels. Our vision is for a livestock export sector that is a professional industry, delivering jobs, prosperity and growth to Australia, with a strong future based on a reputation of reliability and consistent quality to our trading partners while meeting the animal welfare concerns of the Australian community.

ALEC's members include Australian Government licensed livestock exporters of feeder, slaughter and breeder sheep, cattle, goats and camels. Our members account for approximately 95% of Australia's annual livestock exports. The Council's membership also extends to other supply chain participants including producers, registered premise operators, shippers and other suppliers to the trade.

In 2013, exporters shipped and airfreighted 2 million head of sheep (FOB value \$172m), 850,000 head of cattle (FOB value \$755m), 75,000 goats (FOB value \$8.4m) and 80,000 head of dairy cattle (FOB value \$172 m). Exporters expect growth in all species exports in 2014 and have set a goal of 5 million head of exports within two to three years.

The live trade contributes \$1.8 billion to Australia's GDP and employs over 10,000 people around the country, often in regions where there are few alternative job opportunities. Over the past 60 years the trade has helped Australia strengthen our relationship with the Asia and the Middle East by delivering livestock to support food security and deliver good quality protein at an affordable price.

In the past two years the trade has quite undergone change of a global scale and significance.

The impact of shock footage of traditional slaughter practices in Indonesia on the Australian public turned the industry on its head almost overnight. This sharpened and emotive public focus indicated a significant shift in the Australian public's attitude to animal welfare. As a result, a new regulatory regime was introduced – the Exporter Supply Chain Assurance System (ESCAS) – requiring exporters to take responsibility for the entire supply chain through to point of slaughter. With the possible exception of the uranium industry, on no other export sector has an extra territorial regulatory framework been implemented.

With governments focused on establishing Australia as the “food bowl of Asia” and the FAO projecting that total world consumption of meat will increase by more than 100% between 2000 and 2050, the livestock export industry is an essential component of Australia's capacity to deliver against ambitions and expectations and meet increasing demand.

In terms of animal welfare, and while the industry is working to treat areas where further improvement is required, there is little doubt that the Australian livestock export industry is setting the benchmark for live export internationally with Australia (including our commitment to continual improvement), a fact acknowledged by the International animal health and welfare body the OIE.

Appropriate policy and regulatory settings by the Australian Government are critical to the future of the livestock export trade and the thousands of producers who depend on it for their livelihood.

## **THE LINK BETWEEN GRASS FED CATTLE LEVIES AND LIVESTOCK EXPORTS**

### **Part 1: Why investing in the live trade is good for producers**

While there is plenty of commentary from the industry's naysayers to suggest that the livestock trade is of little economic importance, the reality is that the livestock export trade is a fundamental pillar of producer prosperity.

In simple terms the live export trade offers producers an alternative market to domestic processing. Without live exports, farm gate returns would be lower because of the lower demand for livestock and the higher transport costs involved in transporting animals to alternative markets.<sup>1</sup> The value added by the live export trade is greater still given that not all livestock that are exported are suitable for the domestic processing or would extract the same value they do in the live export supply chain (e.g. the lightweight 350kg cattle produced in northern Australia and exported to Indonesia) - a fact that in the absence of the live trade worsens the outlook for producers in northern Australia and sheep export dependent states like Western Australia.

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<sup>1</sup> Centre for International Economics, The contribution of the Australian live export industry, 2011.

Research completed in 2011 by the Centre for International Economics on the contribution of the Australian live export industry found that:-

1. The live trade, on average, significantly increases livestock prices across the Australian red meat industry.
  - In the absence of the live trade the saleyard price of grass fed cattle would be 4% lower on average but 24% lower for northern Australian producers
2. The live trade contributes significantly on a Gross Value of Production basis to farm level industries
  - In the absence of the live trade, GVP for beef producers in northern Australia could fall on average by 21%.

This analysis by CIE bears out in fact. Following the ban on cattle exports to Indonesia in June 2011, cattle prices across northern Australia collapsed as orders were cancelled and producers left with no market for their livestock. The impact was not localised and cattle prices in southern states also took a hit. In the aftermath of the ban, there has been a significant devaluation of cattle properties across northern Australia.

By way of contrast, with the surge of exports into Indonesia over the past five months, Darwin steer prices have risen by approximately 50c per kilo. For exports to Indonesia alone over this period, the higher prices have delivered producers an additional \$35 million (200,000 head at 350kg @50c/kg). This has brought very welcome relief to northern cattle producers after a number of lean years.

## **Part 2: How grass fed levies are invested - The Livestock Export Program**

The Livestock Export Program (LEP) is a joint program between Meat and Livestock Australia (MLA) and LiveCorp and invests producer and exporter levies in a range of livestock export activities along the supply chain.

The total combined LEP expenditure for 2013/14 is \$8.3 million with approximately 60% of funds directed towards animal health and welfare projects.

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.

LEP projects are directly focused on supporting the needs of exporters and their activities in market. Each year MLA and LiveCorp, in close consultation with exporters and producer peak councils, prepare an annual operating plan focused on the industry's key strategic objectives.

The delivery of projects and activities is undertaken in collaboration with exporters and the supply chain. There are three core LEP program areas:-

1. Animal health and welfare
2. Supply chain efficiency
3. Market Access

### ***Strategic Objective 1: Animal health and welfare***

The health and welfare of livestock along the supply chain is of critical importance to exporters and the sustainability of the industry. Healthy and well cared for animals deliver a better return and are a requirement for the industry to continue to receive a social license to operate from the Australian public.

In terms of the LEP, animal welfare is a key area of focus.

The LEP targets its work in several areas and some examples follow.

### ***Training***

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 writing 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 Middle East North Africa (MENA) markets and 850 participants across South East Asia.

Since September 2011, over 3000 people involved in approved supply chains in Indonesia have participated in LEP training activities.

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.

### ***Gap and risk analysis***

Understanding and identifying areas in new supply chains that may need improvements to meet ESCAS requirements and identifying hazards that may develop into problem compliance areas has been a focus of the LEP. At the request of exporters, 97 gap analysis reports have been completed in

Indonesia since the introduction of ESCAS. Gap and risk analysis assessment have also been undertaken in Malaysia, the Philippines, Japan, Brunei and Mauritius. This work has led to recommendations to reduce risks in supply chains, with strong uptake by exporters and their customers.

### ***Industry Collaborative Animal Welfare Program***

A recent initiative of the LEP is to assist exporters with funding to place locally engaged animal welfare or supply chain officers within markets. These individuals assist exporters in market to support customer compliance on welfare in line with contractual requirements, help identify emerging risks and support on the ground health and welfare initiatives in exporter supply chains.

The program has helped exporters engage key personnel in the Middle East, Indonesia and elsewhere in South East Asia.

### ***Technical support during festival periods***

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 in Indonesia, Eid al Adha in MENA and Korban in South East Asia.

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.

### **Strategic Objective 2: Improving supply chain efficiency**

Improving supply chain efficiency and regulatory performance is vital for the long term productivity of the trade.

By way of background, the livestock export industry is facing significant and increasing costs associated with the certification and regulation of the trade, while industry sales and margins have tightened (particularly since the introduction of ESCAS). There is little or no transparency in Department of Agriculture charging and no reasonable right of appeal. Efforts over several years to engage government have failed to deliver any real and lasting gains in cost efficiency.

Departmental charges per animal increased by an average 19% per annum between 2003/4 to 2010/11 prior to the implementation of ESCAS. This represents a cumulative increase in charges over that period of 141%. At the same time, export numbers fell by an average 2% pa. The industry is being treated unreasonably and such cost increases cannot continue.

None of the above increases in charges include additional costs now being borne by industry from the removal of the 40% rebate on the costs of export certification in July 2009. That is, when the removal is taken into account, the increased costs to industry are significantly greater again.

One of the key cost elements in determining export certification charges is the Department's corporate overheads. These went up by 157% between 2009/10 to 2010/11. By any measure, this is an astonishing rate of increase in charges. Annual CPI increases of about 3% pale alongside Department's charging regime. There is an onus on the Department to not abuse its capacity as a monopoly provider. The Department's charges should not exceed those that would be made by equally qualified Australian commercial providers and should be competitively tested.

Our industry operates in a competitive international environment. It is incumbent upon government to work to enhance our competitiveness, not to detract from it. To our knowledge, none of our international competitors are subjected to such cost imposts from their governments.

The removal of the 40% rebate on export certification costs originated from a recommendation of the Beale Review into Biosecurity, based on the argument that most, if not all, the benefits derived from export certification process flow to industry, that is, it is a private good. While this may be the case for the export certification process, there is a strong argument against this for the ESCAS. ESCAS was imposed on industry by government in response to community concern. That is, the benefits derived from ESCAS confer a public good and as such it is a community service obligation (CSO), not an export certification requirement. The competitive neutrality guidelines of government are clear in that if CSO's exist, they should be transparent, appropriately costed, and directly funded by government.

With the above in mind, the LEP's efforts have focused on several key areas, namely:-

- ESCAS performance auditing arrangements
- The Australian Chief Veterinary Officer's review of the Mark IV slaughter box
- The review of ESCAS/OIE animal welfare checklist
- Feedback to government on a range of operational issues and materials, including Export Advisory Notices
- Technical advice to ALEC on the review of the Australian Standards for the Export of Livestock (ASEL)
- The review of animal welfare assurances around breeding livestock
- The Australian Maritime Safety Authority review of Marine Order 43

### **Strategic Objective 3: Enhancing market access for existing and new markets**

The past two years since the introduction of ESCAS has been a volatile period for all involved in the livestock export trade. While the majority of markets have stayed the course, a number of markets have either refused to comply with ESCAS or have been suspended by industry due to higher welfare risks.

For the trade, market access is the cornerstone of future growth and profitability. Exporters and producers are natural opportunists who are actively seeking new export opportunities. The three key areas of focus for the LEP and exporters are:-

- The re-establishment of key markets where market access issues have occurred (e.g.. Bahrain, Egypt, Saudi Arabia and Turkey)
- Maintaining and improving existing market access
- Identifying and opening new markets (e.g. Iran, Iraq and Thailand)

The LEP, through both Australian and in market staff are well placed to assist industry in delivering against these objectives through regular engagement with the market's regulatory agents and export customers and responding to market challenges and opportunities.

The LEP supports In-Market managers in Indonesia and MENA (based in Dubai) and a FIFO position based in Sydney but covering Asia. Additional Australian and locally engaged staff work for the Managers to support various components of the LEP Program. By way of example, the LEP supports a position in the Jakarta office that manages the delivery of animal welfare training across the 100 plus ESCAS approved supply chains in Indonesia.

LEP staff are also actively engaged in providing advice on technical market access issues. The LEP provides the Secretariat services to the industry's Protocol Committee which sets the strategic market access priorities in consultation with exporters, producers and other supply chain participants. In 2012/13, the work of the LEP in this area included:-

- Advice on at least fourteen (14) separate health protocols for different species and markets including the Solomon Islands, Bahrain, PNG, and Iran
- The development of an industry position on HGP freedom processes

Visits by foreign quarantine and trade officials is also managed by the LEP. These visits are important occasions for industry and government to negotiate the conditions of health protocols. They also enable key officials to better understand Australian production and export processes. The LEP has facilitated a number of visits including a recent visit by officials of the Chinese quarantine agency, AQSIQ to discuss the conditions of a new health protocol for feeder/slaughter cattle, sheep and goats as well as the ongoing trade in dairy cattle. China is a priority market access target for livestock exports and this visit was an important step to open the market to more Australian livestock.

### **The LEP RD&E Program**

The LEP RD&E Program cuts across the three strategic objectives of the LEP. The livestock export industry has long supported an RD&E program to improve animal health and welfare, improve infrastructure and industry systems and processes along the supply chain.

An industry seeking to continually improve its practices has a strong focus on RD&E and the livestock trade is no exception.

The LEP RD&E program is overseen by the Live Export Research Development Advisory Committee (LERDAC). The Committee includes a range of industry representatives and an independent animal welfare specialist.

The largest area of investment for the RD&E program for 2012/13 was animal welfare. Key areas of focus include:-

- Development of in-market practical modular training materials for animal welfare officers, trainers and stockpersons based upon the ESCAS animal welfare checklist
- The translation of training materials into a number of languages including Bahasa and Arabic
- The production of instructional DVDs on the management and handling of Australian cattle and sheep on-board livestock vessels with distribution to ship owners, exporters and other relevant stakeholders
- Design of a 'best practice' abattoir for the Indonesian market
- Research into the feasibility of a Livestock Export Quality Assurance System
- Refinement of stocking densities by addressing the knowledge gap regarding the effects of stocking density on the welfare outcomes of cattle and sheep during sea transport
- Development of data collection systems for cattle to produce valid and credible descriptions of causes of death in long haul cattle exported from Australia and to develop systems that can be implemented by industry to describe causes of death on an ongoing basis
- Monitoring and evaluation of the HotStuff model used by industry and Government to determine ship board stocking densities
- Review and redesign of the Stockmen's Training Course – a pre-requisite course for onboard stockmen providing insight and training on animal handling, welfare, and veterinary skills

Completed research reports are available on the LiveCorp website at [www.livecorp.org.au](http://www.livecorp.org.au)



### **Part 3: Are producers getting value for money and a decent return on their investment?**

ALEC's assessment is that the return on investment of grass fed cattle levies through the LEP is significant and ongoing. There are several aspects to this assessment:-

#### *1. Whether the program is responsive to the needs of exporters and other supply chain participants*

As indicated earlier, the program works in close collaboration with exporters, producers and others along the supply chain through the Annual Operating Plan Planning Process and ongoing support to exporters and supply chain participants.

The program is designed around the needs of the livestock export trade to take advantage of emerging market opportunities – for example, facilitating the visit of Chinese quarantine officials to Australia to view Australian production and livestock export system and discuss technical matters pertaining to a new health protocol for feeder and slaughter cattle, sheep and goats to China. Additionally the program is responsive to challenges and risks including providing in market training and technical support around animal welfare and supply chain infrastructure. This submission has canvassed the extent of training services provided on request from exporters and their customers.

The responsiveness of the LEP program to exporter and supply chain participant needs is highly valued by the industry. The services value add to exporters' delivery of supply chains that meet and often exceed the requirements of the regulatory environment.

#### *2. Whether the investment aids the growth and sustainability of the trade necessary to provide prosperity to producers*

As outlined in this submission, the work of the LEP directly supports exporter activities to:-

- Strengthen existing markets and open new ones through in market engagement and technical support to Government in the development of health protocol arrangements
- Increase knowledge, awareness and skills in the area of animal welfare of people who work in and around the trade, thereby winning stronger community support for the trade
- Improve supply chain infrastructure through technical advice on best practice facilities
- Tackle supply chain challenges such as on vessel mortality through research, development and adoption
- Identify efficiencies to improve industry and regulatory processes

By doing so, the industry is strengthening its ability to meet the challenges of the future and seek out new opportunities that lead to increased demand for cattle which directly benefits producers.

#### *3. Whether the investment is effective in responding to market failure*

The LEP works closely with exporters and other supply chain participants to identify areas of market failure. Through the annual AOP process which involves consultation across the supply chain, the LEP is able to move its expenditure to tackle new and emerging supply chain challenges. In the absence of this investment, there would simply be no capacity to address issues on an industry wide basis.

#### 4. *Whether the investment supports the industry's social license to operate*

The issue of the livestock export industry's social license to operate is one that ALEC and its members spent much focus on over the past twelve months. It has also been raised in the polarising debate about the future of the trade.

Social license to operate refers to community support for an industry based on the alignment between community values, ethics and expectations and industry behaviour and performance. The greater the gap between the two the more likely that industry will face increasing community concern and regulatory control. Perhaps a sign of that gap for the livestock export trade is that at one time or another, all major political parties have presided over increased regulation and have restricted market access.

For over fifty years, Australian livestock exporters have pioneered market access for the red meat sector, providing an alternative market and increased returns to livestock producers. The industry has done so with few resources and with a keen eye for opportunity to link Australia's competitive advantage in livestock production with countries unable to produce sufficient protein domestically. Many of these countries do not have a history of livestock production or do so under very different slaughter and welfare conditions to that of Australia. The "rub point" of this differential has been and continues to be animal welfare.

As the community has matured its views around animal welfare, the industry has come under increased and constant scrutiny. Where poor to appalling treatment of livestock has been identified – mostly by animal welfare campaigners and supported by increasingly sophisticated social and traditional media campaigns – the trade has faced interruptions, market bans and more recently increased regulatory and political intervention as government has shifted from being a facilitator of the trade to increase market access to a regulator that restricts trade.

For importing nations, the livestock export industry's value proposition is food security. Yet each new regulatory action undermines the market position for Australian businesses and other nations gain a foothold in our markets.

Following a number of industry workshops, a participative evaluation process on social licence, a review of LEP and LiveCorp research, history and analysis of industry media and timeline of events, the issue facing the trade was distilled down to one simple problem.

*Regulatory action by government to manage community expectations about animal welfare in the livestock export trade adds costs, reduces competitiveness and profitability and stifles exports and sector growth.*

This problem reflects that community attitudes about animal welfare have changed and with that comes changed expectations about how the industry operates and conducts itself.

The LEP plays a role in industry's ability to respond to these challenges. As industry's performance on animal welfare is the sharp end of the public debate, the activities undertaken by the LEP with exporters is fundamental to addressing these core concerns. Without the investment, exporters could simply not have achieved the huge improvements in welfare along the supply chain in a relatively short period of time. Nor could industry strive for continual improvement through practical action in the absence of the RD&E work conducted through the LEP.

In some respects, the MLA/LiveCorp Livestock Export Program embodies the concern for animal welfare at the core of every producer and exporter. That responsibility for welfare manifests itself in

the activities undertaken by the LEP with and on behalf of exporters and supply chain participants, some of which have been described in this submission. We are not only export livestock to the world but through the LEP and exporters, we are exporting animal welfare to the world.