



ALPA Submission

Phase out of live sheep exports by sea

Independent panel
Phase out of live sheep export by sea
Department of Agriculture, Fisheries and Forestry
70 Northbourne Avenue
Canberra 2601

Via email: livesheep.phaseout@agriculture.gov.au

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Australian Livestock & Property Agents Association (ALPA)

ALPA is the national peak industry body for livestock and property agents representing more than 1,200 agency businesses across Australia employing over 8,500 people. Collectively this group plays an important role in livestock, wool, rural property, merchandise, agronomy and insurance sales and marketing.

ALPA members handle in excess of 97% of rural agency business Australia wide and is one of the largest national organisations of small rural businesspeople relied on to protect the interests of agents and producers nationally.

ALPA national membership includes multi-faceted agribusiness corporations and private livestock agencies across Australia.

ALPA and its member agencies play a critical role within the food and fibre supply chain in both a transactional and advisory capacity which consists of but is not strictly limited to breeding, production, animal husbandry, nutrition, biosecurity, traceability, animal welfare, land management and rural community leadership.

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At the very outset ALPA unreservedly affirms that we **DO NOT support the federal government's proposed phase out of the live sheep export trade.**

Livestock and property agents are an integral link in the supply chain across Australia. For context and in prosecuting our argument it is important to define the role of a stock and station agent within the red meat supply chain. The time-honoured contribution of the stock and station agent dates back to the earliest days of Australian pastoral history.

A stock and station agent holds a fiduciary obligation to their vendor and by virtue of a duty of care, must act in the best interests of their client, in particular management of their assets. Significantly a stock and station agent does not have ownership of the livestock being sold, nor do they receive the proceeds of sale. Nevertheless, an agent will take the mercantile risk for the debt incurred by the buyer through a system known as *del credere* which guarantees payment to the producer irrespective of the default of the buyer.

An agent knows and meets with their livestock producer clients and visits them frequently. An agent will for the best part provide advice prior to livestock being prepared for sale and will be involved in person, or by consultation with selecting which stock might be sent for sale and providing the optimum marketing option which might be saleyards, private sale in the paddock with a willing and able buyer, consignment direct to processor, online marketing or live export.

A producer consigns livestock to the agent for sale on its behalf and the agent's overriding duty is fundamentally to its client, therefore the agent must be able to give and MUST, give advice free from any personal or financial interest in the sale. In consideration of a successful transaction of livestock, wool or property the agent is remunerated by way of fee entitlement or commission which is a stated percentage of the sale price.

Any unwanted and unnecessary political intervention into a livestock market such as phasing out a means of production for world food supply will have profound reverberations across the entire rural landscape and will not be strictly limited to farmgate prices as it will impact all spectrums of the food supply chain from producers, wool classers, shearers, contract labour, transporters, merchandise suppliers, agents, fuel operators, veterinarians, shearing contractors, wool store employees, saleyard operators to name just a few.

The ALPA submission will focus on the impacts the ban of live sheep export trade will have specifically on agents. The ALPA submission will rely heavily on the analysis conducted by Mecardo, a Nutrien Ag Solutions business and ALPA member.

Globally, Australia's withdrawal from live sheep export markets will not impact demand for live sheep in key consuming markets. The evidence from the past five years is that as supply to Middle Eastern countries has reduced from Australia, they have simply sought new sources of live import. ¹

Impact to livestock markets

Live export supports the local pricing structure for lambs and sheep in WA. Analysis of the WA marketplace shows when live export carriers are actively buying this short term demand may have added approximately \$5.50 per head to lamb prices in 2022.²

Removing any sales avenue from the market place either dilutes or dissipates competitive tension resulting in price reductions for producers. This exact scenario played out in the Australian cattle market during the 2011 live export ban (an unconscionable and unnecessary political intervention), when southern cattle prices saw a dramatic drop on the back of northern cattle flooding the domestic market. A sharp decline in sheep prices has already been experienced since the government's announcement last year.

The Northern Hemisphere summer moratorium on live sheep exports provides compelling perspective of the impact of no live export trade in the WA market. Analysis from Mecardo shows there is a clear trend that the discount for trade lambs in WA compared with the eastern states deepens by on average \$10-20/head during the moratorium on live exports.³

Anecdotal evidence in the Mecardo analysis indicates farmers reporting upward movements of processor grid prices in response to live export demand and grid price drops once the live export bid closes.⁴

In 2022, WA saleyard trade lamb prices (WATLI) seven days after a live export carrier's departure were, on average, \$5.50/head lower than the prior 14 days when the live export buyer was actively procuring lambs. This observation provides empirical

¹ Mecardo, May 2023, Australian Live Sheep Export Trade Analysis, pg. 11

² Ibid pg.1

³ Ibid pg. 5

⁴ Ibid pg. 6

evidence that on average, active operation of the live export industry enables higher turn-off prices for sheep farmers in WA. The benefit is industry-wide, and not confined solely to farmers who supply stock directly to the live export industry.⁵

As per the Mecardo analysis, “WA sheep farmers risk becoming price takers to local processors who will be able to offer discounted pricing vs eastern states processors, up to the point of the transport differential, and potentially beyond in the case of mature sheep where growers have no alternative channels to sell their animals.”⁶

The high transportation costs from WA to the eastern states limits arbitrage opportunities. The higher the transport costs, the larger the discount for stock. Eastern buyers become active in the market when the price differential between west to east is greater than the cost of transport. The price differential window is diminishing with rapidly increasing transport costs. The sums added up on occasions for lambs, but rarely do economic incentives present themselves for mutton.

A viable WA sheep industry is integral to the sustainability and status of the national flock. A reduction in WA sheep numbers also has ramifications for the east coast which is reliant on the west for flock rebuilding opportunities after drought. This was evidenced recently with the break in the east coast drought resulting in large numbers of eastern buyers present in the WA market in search of stock to rebuild depleted flocks in the east.

The composition of the WA breeding flock is predominantly Merino based on longstanding meticulously selected bloodlines and proven genetics fit for the purpose of specialised marketing to a specification. The production of Merino wethers is a result of the self-replacing Merino flock. The live export market complements the turn off of Merino wether hoggets or mature-age wethers that would not meet the specifications for domestic slaughter and would incur substantial price discounts by processors.

The highly seasonal nature of production in key Merino sheep regions of WA means that many farmers rely on the live export trade as a ‘relief valve’ when seasonal conditions are poor and feed availability is low. In contrast with eastern states, WA farmers have fewer opportunities to move sheep between climatic zones for weight gain.

Access to the live export market enables farmers to run optimal stocking densities and be more productive. Knowing they can turn-off stock to the live export trade at

⁵ Ibid pg. 6

⁶ Ibid pg. 11

different ages allows farmers to take on more risk. For example, the opportunity to turn-off mature wool-producing wethers when feed becomes scarce gives a farmer confidence in maintaining a larger breeding and wool-producing flock when pasture allows. Analysis undertaken by Mecardo in 2020 noted several WA farmers stated that if they could no longer access the live export market they would lower their stocking densities to manage seasonal risk, and thereby reduce the productivity and profitability of their operation.

The removal of an integral market also places pressure on existing marketing outlets. The WA processing sector is already at capacity without adding increased numbers into the system. There is an inability to process these animals, let alone consider the competition from this sector in what is already an oversupplied market.⁷

Running parallel to any phase out of the live sheep export market are the serious ramifications this will have on the live cattle export business in WA. Without the sheep trade the viability of the cattle trade is questionable. Analysis from Mecardo states, “an end to the live sheep export trade would also have implications for the WA cattle market. In addition to sheep, many boats carry a consignment of bulls to Middle Eastern markets through the practice of mixed species loading of live export carriers. Presently, these lightweight bulls do not have an alternative market if they are not exported live. Over the last five years, on average Australia has exported over 45,000 live cattle per year to Israel.”⁸

Impact to wool production

The majority of WA sheep farmers breed their own flocks. In 2021, 84% of the WA breeding flock of 6.9 million head was made up of Merino ewes. This contrasts with the eastern states, where only 64% of the breeding flock was Merino ewes.⁹

The live sheep export market is heavily reliant upon the sourcing of Merino wethers, and should this market no longer exist, producers will be left with no other option than to reconsider what sheep to breed. A change in breed type, classification, husbandry, nutrition and pasture crop management for fattening is not an overnight or monthly management practice as it can take some years to initiate successful changes to breed type. Analysis from Mecardo suggests producers may transition their Merino flock towards composites or change to crossbreds to focus on meat production rather than wool production.¹⁰

⁷ Ibid pg. 2

⁸ Ibid pg. 9

⁹ Ibid pg. 1

¹⁰ Ibid pg. 10

These changes will inevitably have negative implications for the wool industry.

WA accounts for approximately 20% of Australian wool production value and volume, producing 374,863 bales in 2021/22 according to Australian Wool Testing Authority volumes. As can be expected, ~90% of WA wool production volume changes can be explained by changes in the size of the WA sheep flock. Therefore, any scenario which causes the WA Merino flock to reduce would cause a reduction in wool production. For example, a 15% reduction in the WA Merino flock, would reduce WA wool production by approximately 55,000 bales.

Such a shift would undoubtedly have flow-on effects through the supply chain. The WA wool supply chain is sensitive to changes in principal wool trading volumes and a reduction in volumes would have a negative impact on the profitability, scale and number of businesses that currently support the WA wool industry.¹¹

The WA Merino flock is intrinsically linked to the foundation of the Australian wool market. If Merinos are no longer viable and there is transition to meat production the strength and reputation of the Australian wool market is under pressure. The quality of Australian wool is prized in international markets. The decline in the national wool clip will impose reputational risk for trading partners and the surety of supply.

Impact to property markets

Removing live export as a market channel may see producers changing their enterprise type, product focus or flock composition, leading to flow on effects for dependent markets such as wool and bull live export and/or supporting services such as grain logistics and handling.¹²

Changes to enterprise type and production systems will have a negative impact on farm values for current sheep properties. A key principle of valuation practice is the determination of value using a sheep area calculation which is based upon carrying capacity and market prices assuming no caveats. In arriving at a fair and reasonable valuation of sheep/ cereal cropping enterprises the valuer will have to consider highest and best use applications and take into consideration not only recent and comparable sales but any and all affectations such as falling sheep and wool prices with no prospect for growth. Ultimately this will have an indisputable negative effect on price per hectare calculations, resulting of course in a significantly lesser fair market value of the property. Existing sheep properties with capital improvements specific to the

¹¹ Ibid pg. 10

¹² Ibid pg. 1

production of sheep will be redundant and of no value with a transition away from sheep production.

There will be a reduction in the productivity and profitability of mixed farming operations and subsequent property valuations when the “mix” in mixed farming is no longer an option.

Impact for agents

As key players in the sheep, wool and property markets the proposed phase out of the live sheep export markets will have far-reaching impacts for stock and station agents. The livestock and property agency industry is commission based. Any price reduction the producer experiences has a direct impact on agency businesses. As highlighted above, the live sheep export market is entwined in every aspect of an agent's business.

Reduced prices for sheep, not to mention diminishing throughput, will have negative outcomes for agency businesses. There are concerns also as to what this new sales environment may look like. Agents currently are heavily involved in sourcing animals for the livestock export market which is an important part of the business. The removal of this market removes this revenue stream. If these animals are pushed back through domestic markets there is a high risk that many of these animals will go direct to processors bypassing agents and therefore diminishing agency business.

A transition from a wool producing Merino flock towards a focus on composites or crossbreds and meat production will diminish the wool clip. Elders only this year invested \$25 million in a wool business headquarters, show floor and wool store at East Rockingham. What happens to the wool industry in WA? What happens to the wool industry in Australia? What happens to wool firms including AWN, Elders Rural Services, Nutrien Ag Solutions, Schute Bell Badgery Lumby? For a country that was founded on the sheep's back, it is deeply disappointing that no consideration has been given to the significance of this industry and the subsequent ramifications.

The decline in market value of rural properties and the impact on a property agent is self-evident. In the current cost of living crisis, every dollar counts. Incomes are struggling to keep pace with inflation. Add to these financial pressures a wage cut and the outcome is bleak.

Livestock, wool, property are the core business of livestock and property agents. Add to this the ancillary services including merchandise and insurance sales, finance. All aspects of the business will experience severe negative income constraints.

Stock and station agents are integral to rural and regional communities. To compensate for the reduction in income it can only be concluded that cost cutting mechanisms will be imposed. The envisaged staff redundancies and business closures will have impacts to the viability and vibrancy of the rural and regional communities that these businesses support.

Sadly a phaseout of live sheep export trade and diminished income for family stock and station agencies will gravely stymie succession plans for family businesses. What young woman or man would choose to take over a declining business with no hope for growth and no prospects for their children to take over in the future. The oxygen supply of a livestock agent is the stock in their hands available for sale and the double edged sword is the deficiency of supply compounded by a poor price for the product.

Impact to processing capacity

Peak slaughter capacity is relatively inelastic over the short term, being limited by the infrastructure and capital of existing operators, and labour availability for processing.

Anecdotal reports suggest that in WA capacity constraints at the processor level have impacted sheep and lamb marketing. WA buyers and agents have indicated that over the last 24 months in particular, some WA processors have often been “booked-up” months in advance, reducing competition for lambs and sheep.¹³

The processor bottlenecks that occurred during, and as a result of, the COVID pandemic and limited labour availability provide a good example of the market implications of a backlog in sheep and lamb turn-off. In the second half of 2022, backlogs in lamb and sheep processing in WA drove the spread between trade lamb prices in WA vs eastern states to widen beyond the five-year average of 13% up to a peak of 37%. For mutton, the discount reached 55% at its largest, well above the five-year average discount of 15%.¹⁴

The inference that live sheep trade should be replaced with packaged product is debunked through the Mecardo analysis which states:

Low correlation exists between monthly Australian live sheep export volumes and sheep meat export volumes to the Middle East. There has been no corresponding equivalent lift in export volumes of Australian sheep meat to Middle Eastern markets since the implementation of the live sheep export summer moratorium. This suggests

¹³ Ibid pg. 7

¹⁴ Ibid pg. 8

*that demand from the Middle East will not shift to packaged sheep meat should live sheep supply from Australia cease.*¹⁵

The WA processing sector is already at capacity, operating predominantly on single shifts due to a lack of sufficient workforce so it is a nonsensical argument to impute that additional throughput can easily be absorbed. The inability to process these animals due to an oversupplied market has a negative price impact, an animal welfare impact and environmental impact. Mitigating factors compel animals to be held beyond their optimal turn off times. This places undue pressure on the sustainability of grazing lands and results in lambs cutting their two teeth and growing out to hoggets thus selling at the reduced rate.

It has already been identified there is limited competition in the WA meat processing sector which will only be exacerbated with the removal of live sheep exports.

As raised previously ALPA also has concerns with how marketing of livestock will proceed when the market through this government intervention and policy change becomes highly dependent on the processing sector. There is a risk that there will be an increase in sales direct to processors. If this eventuates, the resultant effect is an immediate hit to the bottom line of stock and station agents. Compounding this is the underlying impact into the less appreciated value proposition agents provide through the protection they give to their vendor clients in achieving the best possible price outcome and security of payment (using del credere) for their livestock.

Impact to labour force and employment opportunities

The negative business impact to livestock and property agencies will have flow on effects to staffing requirements for these businesses. The removal of any job opportunity within rural and regional areas has profound impacts to these communities.

Impact to mental health

Recollections of the fallout from the Australian Wool Reserve Price Scheme collapse have left an indelible mark on the memories of older agents. The drastic measures that producers had to take to reduce their flock size are memories that do not want to be revisited. Younger agents who have not experienced turmoil like this before are reaching out to older agents in preparation for the possibility of difficult times ahead.

¹⁵ Ibid pg. 8

The close relationship that exists between agents and their vendor clients results in agents bearing the burden of their mental health concerns. ALPA agents are key conduits and quasi counsellors within rural communities. This is an admirable position that such trust can be espoused, but this can take its toll.

Impact to levy funds

The phase out of live sheep exports will have direct impact to levy funds for LiveCorp. Stock and station agents are tasked with the legal responsibility as collection agents to collect industry funds borne out of livestock sales. Whilst the task may be conducted begrudgingly, the benefit of funding LiveCorp to operate in its capacity to work closely with exporters and other stakeholders to continuously improve performance in animal health and welfare, supply chain efficiency and market access is undeniable.

Closing statement

ALPA appreciated the opportunity to discuss our concerns of the proposed phase out of the live sheep export trade with the Live Sheep Export Phase Out Consultation Panel on 18 May 2023 and welcomes the opportunity for further consultation following receipt of submissions.

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Australian Livestock & Property Agents Association Ltd

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