



14 June 2023

Mr Phillip Glyde
Chair
Live Sheep Phase Out Panel

Dear Mr Glyde

The Australian Livestock Exporters' Council (ALEC) is a member-based, peak industry body representing Australia's livestock export sector which contributes over \$1 billion in export earnings annually while employing 13,000 mainly regional Australians. ALEC provides strategic direction to the industry, sets industry policy, and represents Australia's livestock export trade in Australia and internationally.

ALEC members account for more than 96 per cent of Australia's annual livestock exports, by volume and value. ALEC's membership also extends to supply chain participants including registered premise operators, ship owners, feed suppliers and other service providers to the trade.

In opposition, prior to the last Federal election, Senator Murray Watt (as he was then) stated in Parliament, during a debate on a motion on live exports that:

...the live export industry continues to be a world leader with regard to animal welfare and continues to operate on a sustainable basis

And:

...it was a Labor government that ensured that the live export trade operates on a sustainable footing

The motion was agreed to, with no dissent from Labor or the Liberal National Coalition. Senator Watt went on to say that future policy must be led by science, which of course this policy is not. To suggest that this policy has been clearly signalled and taken to two elections is highly disputed by the live export industry.

ALEC is staunchly opposed to the Australian Government's policy to phase out live sheep exports. Exporters will be put of business. Feed manufacturers and vessel owners will also experience significant financial distress. We firmly believe the policy will cause significant and lasting damage to the agriculture sector, particularly in Western Australia.

ALEC has stood alongside 24 other national agricultural bodies advising Minister Watt that the policy is a whole of sector issue, not just a livestock exports issue. **The policy represents a red line that cannot be crossed.** We will never support legitimate agricultural industries being closed for political reasons, or to suit activist's biased agendas.



We recognise that the live sheep industry has not been without its past challenges, but also acknowledge and commend the industry for its reform, which has been substantiated by evidence and has enhanced Australia's trading reputation internationally. Just as the live cattle industry reformed after the 2011 export ban to Indonesia.

The regulatory environment has changed, and outcomes have markedly improved

Several regulatory changes that have occurred since 2018 and it is important that the contributions of all these changes are recognised. It is worth putting these on the record for the Panel's benefit.

Most critically, in 2018, industry voluntarily imposed a moratorium on shipments during the northern hemisphere summer months in response to distressing footage of heat stress events on board live sheep export vessels. After that time, no sheep were exported to the Middle East until approvals were made by the department in September 2018.

From 2019 onwards, the industry-led moratorium was enshrined as a regulatory prohibition period for voyages during those months (June to September). The most significant additional condition was the change to space allocations, which has been embedded in newer versions of the Australian Standards for the Export of Livestock (ASEL v3.0 onwards).

ASEL v3 imposed additional requirements for the sheep trade to the Middle East, most significantly:

- Increased time spent in registered establishments prior to the voyage.
- Tighter bedding requirements during the voyage.
- A requirement for automated systems to supply water to livestock onboard vessels.
- Increased fodder to be carried.

Amendments to Marine Order 43 (MO43) in the last three years have also led to significant changes of relevance to animal welfare outcomes, including:

- Accelerated phase out of two-tier vessels (the last two-tier vessel was retired in 2020).
- Mechanical ventilation requirements (includes minimum air speeds; 2020 onwards).

Auditing and monitoring requirements have also increased, including the deployment of Independent Observers (suspended during the COVID-19 pandemic). The Panel should also take the following points into account:

- All these changes have occurred over a very short space of time and industry adaptation has occurred despite challenging external conditions.
- Several sheep vessels have upgraded their ventilation systems to exceed the MO43 standards
- The regulatory changes described are independent of the prohibition and had a marked effect on mortality rates and animal welfare.

The evidence for regulatory changes and increased auditing and monitoring having an impact is shown in changes to mortality rates.

Analysis of sheep mortality rates¹ by the Australian Livestock Export Corporation (LiveCorp) has revealed the following:

- The average voyage mortality rate for sheep in 2022 is 0.16%, a record low level.
- The average voyage mortality rate in 2022 compares to average voyage mortality rates of 0.22% in 2020, 0.64% in 2015 and 0.90% in 2010 – that is, average sheep voyage mortality rates are now about one-sixth of the levels they were in 2010.

Daily mortality rates remove the influence of voyage duration and have shown the following trends:

- The average daily mortality rate for sheep in 2022 was 0.007%, the lowest on record.
- The average daily mortality rate in 2022 compares to average daily mortality rates of 0.010% in 2020, 0.029% in 2015 and 0.038% in 2010 – that is, average sheep daily mortality rates are less than one-fifth of the levels they were in 2010.

Despite this, the phase out policy remains and if carried it would set an appalling precedent, one which alarms the entire agricultural community and one that will have international trade implications now and into the future.

All agricultural industries have, at some point, become the target of activist agendas that do not portray our industries truthfully and it would be highly concerning if the Australian Government decided to prioritise activist agendas over the overwhelming evidence of reform and improvement.

Activists will not stop at just the live sheep industry. Any accession to their agenda undermines all Australian Agricultural industries and the work and investment we have collectively made to Australia being a world leader in agriculture, generating over \$70 billion in exports in the 2022-23 financial year.

It will invariably damage the Australian cattle industry, limiting the avenues for commercial shipments to go to the Middle East. The evidence for this is clear. The Kingdom of Saudi Arabia is a large importer of cattle, yet no Australian cattle are exported there because it is not commercial to do so.

No amount of compensation or phased introduction can offset or mitigate the damage this policy will do. The industry cannot be replaced.

ALEC is providing this submission to the live sheep phase out panel to place our strong objections and assessments of the impact of this political commitment on the public record.

It is incumbent on the panel members to fully investigate, and report to the Minister for Agriculture, Fisheries and Forestry, Senator the Hon. Murray Watt, on all matters raised in this submission, and those made by exporters and agricultural producer representatives,

¹ LiveCorp calculations using the following sources: Up to and including 2020, data is from Department of Agriculture, Fisheries & Forestry (DAFF), Reports to Parliament, <https://www.agriculture.gov.au/biosecurity-trade/export/controlled-goods/live-animals/live-animal-export-statistics/reports-to-parliament> For 2021 & 2022 data is from LivexCollect database.

noting that the terms of reference give scope to the panel to advise on all matters as appropriate.

The importance of international trade

ALEC notes that it is within the panel's terms of reference to advise Minister Watt about trade and market issues.

By understanding the genesis of the trade and the ongoing value it delivers to WA farmers, the Panel might begin to comprehend what the Australian Government has decided to cast aside and why this is such an affront to our trading partners and so detrimental to all Australian agricultural producers.

It is impossible to begin a discussion such as the role of live sheep exports in Australia's agriculture sector and broader economy without first explaining the nature of international trade and investment. It is critical that any such discussion begins with a deeper examination and scrutiny of popular commentary on this broader topic.

Much of the focus of community and media commentary around international trade centres on the role of governments. Governments like to parrot their "success" in "generating" exports of goods and services. Political opponents also chastise governments when the trade balance or current account statistics reveal a deficit.

Seldom mentioned are the billions of dollars in investments across international borders. Most of the time, popular commentary speaks of the "evils" of foreign ownership. We rarely hear about foreign investment as something that benefits the host country, often as part of an international supply chain that enables a country to produce things and trade them with the world.

There is little understanding of how trade and investment relationships are formed, developing and maintained. Conducting business internationally is a challenging and complex task. It is people and companies that drive international trade. Governments do, and should, play a back seat role.

International trade and comparative advantage, as a set of transactions that are willingly and voluntarily entered into, is driven by a fundamental human desire – to improve their lot in life – *I have a surplus of something that is of greater value to you than it is to me, and we can make each other better off through exchange.*

Mr Osama Boodai, CEO of the Kuwait Livestock Transport and Trading (KLTT) company, eloquently explained the genesis of the relationship between his company and Australian sheep farmers in a recent interview² on ABC Radio:

In the 1950s, [the pioneering importer of live sheep from Australia to Kuwait, Mr Yacoub Al Homaizi] was reading a newspaper in Kuwait... At that time, it was a really long flight to reach to Australia. He read that...the farmers in Australia, they want the price of the bullet they want to kill the sheep because they don't want them anymore...He travelled all the way to Australia to understand why they are doing that and then he started with a small shipment in the 1950s...and then he built a small ship. In 1973, the Government of Kuwait realised that it is important to have the livestock

² ABC Radio, 16 May 2023, WA Country Hour, Osama Boodai - Interview with Belinda Varischetti

[in] our country because we are a desert country...the former Emir of Kuwait, he started the company for the purpose of food security for Kuwait.

This venture began at the end of the Korean War and the Australian wool market had collapsed. While the Kuwaitis were pursuing their own food security goals, they also offered Australia, and in particular its farmers, a new alternative market, with different drivers that provided greater robustness and resilience through a new option to sell sheep. This has flourished into a deep and enduring partnership over half a century. KLTT has remained loyal to Australia, sourcing all of its sheep from Australian farmers.

Over the next six decades, the whole Australian agriculture sector has adapted and prospered because of this new opportunity. Sheep production in WA now pivots across three markets – wool, meat processing and live export – and are all complementary in adding value to the sheep production sector.

Mr Boodai's comments make absolutely clear the Kuwaiti people gain at least as much in terms of food security from importing our sheep as Australian farmers and exporters gain in revenue from exporting them. Hence the Kuwaitis' longstanding investment in Australia. This has been replicated across the Middle East.

It is those people and companies that choose to travel vast distances to seek out new commercial partners, overcome language and cultural barriers and spend months or years negotiating the terms of a partnership and a potential business model and supply chain.

The role of Governments in international trade and WTO risk

National governments play a significant role in establishing the trading environment through the use or absence of policies like import tariffs and quotas, export restrictions, taxes and investment restrictions. They also play a critical role enabling agricultural market access through negotiating the technical rules around plant and animal health, traceability, product integrity, and food safety. They certify and provide assurances to importing countries that agricultural products are what they say they are and that they will not cause harm to the importing country. However, as discussed above, individuals and companies are the ones that make commercial decisions about what to trade with whom. Governments trying to direct these choices often results in deleterious consequences.

Using their broad policy settings, national governments have three options when it comes to international trade. They can set rules and policies that encourage and facilitate greater trade flows with other countries, they can be passive and allow it to happen with minimal encouragement or interference, or they can actively put barriers in the way to reduce or completely halt trade.

These policies, along with cultural and geopolitical factors, determine a country's trading reputation and the levels of trust between nations. That reputation and trust is a public good – it is clearly both non-rivalrous and non-excludable. Once established, any company or individual operating within the borders of that country is able to leverage that reputation (or is penalised if the reputation is poor). Only regulatory action to prevent rogue individuals and companies can prevent them from doing so.

With their control of the main policy levers, Governments are the only entities that can supply a good international trading reputation. They must act responsibly and show a

commitment to a rules-based international order – something which successive Australian Governments of all political persuasions have known and abided by.

If the current Australian Government deliberately implements a policy that is known to damage that reputation, to appease domestic interests based on the flimsiest evidence, how can the Australian people and affected Australian companies ever be compensated for that? It will take decades to repair the damage, if it can be done at all! Who pays for that? Why should taxpayers be forced to repair damage that their elected officials chose to cause?

If Governments are concerned about other domestic policy goals, such as protecting animal welfare, the principle in international trade law is that Governments should take the least restrictive policy measures to achieve the desired outcomes. Banning the export of a commodity is the most extreme policy restriction that a government can put in place and should be reserved for the most severe cases of harm that a government is trying to prevent.

This policy is politically contested and the Liberal and National parties have given a commitment to reinstate the trade should they win office at the next election. ALEC appreciates and supports this commitment. However, the damage that will be wrought, even by legislating a ban without commencing it prior to the next election will do lasting damage. Supply chains cannot merely be turned on and off like a tap.

Governments need to be able to demonstrate that there is no alternative to a ban, otherwise, any such policy is open to challenge through the World Trade Organisation (WTO), not to mention the risks associated with a class action taken by affected parties through the Australian court system.

If the Australian Government ultimately bans the export of livestock, the prospects of negotiating a free trade agreement or comprehensive economic partnership agreement with the Gulf Cooperation Council (GCC)³ are practically zero. Currently, Australian livestock exports enter GCC member states with zero tariffs applied. Frozen, boxed and chilled meat, on the other hand, along with many other agricultural and non-agricultural commodities face significant tariffs at the border. It is the producers of these commodities that will ultimately lose out.

To this point, ALEC puts to the Panel that is very much within its scope to consider the international trade ramifications of this policy and alerts the Panel that the risks of a WTO challenge and class actions are very real. It is clear to ALEC that WTO laws are largely unsettled on the issue of export bans – particularly if they are discriminatory to trading partners, apply moral judgment or are questionable in necessity. Such an action places risk on Australia's entire trading reputation which is a cause of palpable concern amongst other agricultural industries particularly.

It is incumbent on the Panel to advise the Minister of these very real risks.

Undoubtedly, there are community expectations in Australia about the welfare of livestock being exported, and rightly so. The live export industry acknowledges the incidents that

³ GCC member states: Kingdom of Bahrain, Kingdom of Saudi Arabia, State of Kuwait, State of Qatar, Sultanate of Oman and United Arab Emirates

have occurred in the past that have regrettably led to animal suffering. Importantly, however, the industry has taken responsibility for these failures and improved its performance – a factor that the WTO would undoubtedly consider if this policy was challenged as it would speak to its necessity.

That is why the live export industry recognises and supports the use of the five internationally recognised domains of animal welfare that underpin animal welfare standards, both in Australia and globally. The industry is heavily regulated and exporters, both individually and collectively have a clear and incontestable emphasis on the resources put into ensuring the welfare of the animals in their care. As do the farmers that supply the sheep.

Cultural importance of the live sheep trade

The simple fact is that our trading partners in the Middle East have consistently stated their desire to import livestock and that if they are unable to buy livestock from Australia, frozen, boxed or chilled meat is not considered a reasonable substitute at present.

Frozen/boxed//chilled meat serves a different set of consumers in these markets.

As ACIL Allen also notes⁴, there are religious and broader cultural motivations behind the importation of sheep. The sacrifice of a live animal is seen as an expression of faith, gratitude, and community solidarity, particularly during religious festivals around Eid and the Hajj Pilgrimage to Mecca.

Furthermore:

From a cultural perspective, sheep are seen as symbols of hospitality, generosity, and kindness. It is not uncommon for Middle Eastern families to keep sheep on their properties, especially in rural areas. In many cases, guests are greeted with the sight of sheep grazing in the yard, and it is considered a sign of respect and honour to offer a guest a sheep as a gift or as a meal.

The cultural importance of live sheep in the Middle East can also be seen in traditional festivals and events featuring sheep, such as the Oman National Sheep Show. These events showcase the region's cultural heritage and celebrate the role that sheep play in the daily lives and traditions of many Middle Eastern communities.

This practice is so embedded and prolific that the Government of Saudi Arabia, for example, has established local government slaughterhouses where people can take animals to be slaughtered to maintain food safety and hygiene.

⁴ ACIL Allen (2023), Performance and value of the live sheep export trade,

<https://livecorp.com.au/report/5yfRJ1B0iLbR7WHi4y3QaU>

See pp.34-36 for a full description of the cultural and religious importance of sheep and Sheepmeat in the Middle East

Mecardo⁵ has shown that:

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 live sheep export summer moratorium began.

This confirms that demand from the Middle East will not shift to packaged sheepmeat after a phase out. Our customers will simply develop alternative sources of supply for live sheep from other markets – their food security imperatives will not disappear. To be clear, this is not what these countries want. Their people want Australian sheep because of their quality and characteristics.

The decrease in supply of live sheep from Australia to the Middle East since 2017 has been replaced by growing supply from other countries to fill the demand for live sheep. Romania, Iran, Lebanon, Spain, Ireland, Somalia and Turkey are key suppliers.

Misguided policy as a trade risk

Those opposed to live sheep exports like to talk of those exports “only” being worth \$85 million dollars in 2022, as though the loss of one part of the supply chain would be acceptable. They also tout the supposed ease of replacing that export value through selling more boxed meat and finding other markets as though it is possible to make a direct substitution.

It is incredibly naïve to think a government can impose its own ethics and morals on consumers in other countries. Yet this is what animal activist groups, like the Australian Alliance for Animal Welfare (AAAW) say the Australian Government should attempt. AAAW have openly stated that: “welfare issues are inherent to the trade” and that “deeply held cultural practices...cannot be managed or overcome”⁶. This is ethnocentric bias writ large.

The presence of closed loop supply chains in our key markets, for example, show this attitude to be completely wrong. Middle Eastern trading partners have invested millions of dollars in meeting ESCAS requirements and animal welfare improvements. It is quite frankly, insulting to them to imply such investments and improvements contravene their cultural practices and their willingness to engage meaningful animal welfare improvements. Walking away from the trade, as this policy proposes, is not the answer.

In case anyone is in any doubt that AAAW does not have the best interests of Australia’s diplomatic and trading relationships at heart, AAAW co-director Dr Jed Goodfellow recently travelled to Europe, where he proudly admitted to undermining Australia’s negotiating position, providing misinformation about Australia’s animal welfare standards and practices.⁷

It is incredibly disappointing that Government policy on agriculture, is seemingly being steered by activist organisations that undermine Australian agriculture at every opportunity.

⁵ Mecardo (2023), Australian Live Sheep Export Trade Analysis, p. 8

⁶ Australian Alliance for Animal Welfare (2023), Submission to the live sheep phase out panel, p.8

⁷ https://twitter.com/Alliance_AAFA/status/1661584903971176449?cxt=HHwWgoDU1dWqkY8uAAAA

Other industries at risk

This decision sets a worrying precedent – that a Government can attempt to shut down an industry on a whim, particularly when Minister Watt is on the Parliamentary record stating that the live sheep trade has reformed. That it is being done for what it sees as domestic political advantage, regardless of the investments made in improving performance and with disregard for the damage it will do to Australia's national interest, is distressing and disappointing to say the least.

It is no wonder then, that cattle producers and other trading partners are concerned about whether their longstanding trading relationships can also be cast aside in the name of appeasing animal activists. Food security is one of the most acute concerns facing several nations⁸ without the access to arable land and a favourable and diverse climate for food production, like Australia.

Australia has argued for many decades, through multilateral partnerships like the Cairns Group in the WTO and through the OECD, that other countries should reduce barriers to agricultural trade and not pursue 'self-sufficiency' through distortionary subsidies, import tariffs and quotas. Our argument has always been that free and open agricultural trade is the best way to ensure global food security.

This phase out policy diminishes Australia's leadership of the Cairns Group and hampers the case for agricultural trade liberalisation. Ignoring the food security concerns of trading partners who Australia have lobbied so hard to open their markets risks undermining the considerable progress made to date on improving animal welfare. Pandering to activist groups that have stated objectives to end all animal agriculture sends a distasteful and patronising signal to those countries and does immense damage to Australia's reputation as a trusted trading partner and as an international leader.

The activist groups that have lobbied for the removal of the live sheep trade have also stated their objective of banning live cattle exports. This would have a severe and lasting impact both internationally, in countries that rely on breeder cattle for genetics and stock replenishment and also domestically, where it would impact Australian jobs, economic growth and its environment⁹.

Furthermore, this arrogant attitude and thinly veiled bigotry will cost farmers in other ways. If Australia stops selling sheep to Middle Eastern countries, this will also potentially jeopardise other agricultural commodities such as feed grain, boxed meat, dairy and horticultural products. Remember it was the Kuwait and Saudi Arabian Governments who brought our feed barley, during COVID, when China boycotted its purchase. This clearly demonstrates that any phase out of live sheep exports would certainly harm Australian Government efforts to diversify agricultural markets and improve existing market access.

The Panel simply must address all these issues and ensure that the Minister is not left in any doubt about the damage the Government's policy will do to all of Australia's interests.

It is the unenviable task the live sheep phase out panel has been given by Minister Watt – how much harm to the WA and Australian agriculture sector and how much damage to

⁸ World Food Program: <https://www.wfp.org/global-hunger-crisis/>

⁹ ACIL Allen (2022), The economic contribution and benefits of the northern live export cattle industry, Final report: <https://livecorp.com.au/report/7KDlZD23QjzG7jOeARjQkC>

Australia's international trading reputation is acceptable? How will the panel put a price on Australia's international reputation and how can current and future Australians ever be compensated for that?

Importance of the live sheep trade to the entire Australian sheep industry

The live export sector has provided valuable support to the Australian sheep industry at times of severe stress, either during droughts or due to Government-imposed calamity, such as when the wool reserve price scheme ceased in 1991. Live export has demonstrated its value as a relief valve time and again, improving both the value of sheep being turned off and ensuring sheep were not culled for being valueless.

According to ACIL Allen¹⁰, Australia's sheep flock was 70.24 million head in 2020-21, an increase of 3.2% from the previous financial year. The national sheep flock is estimated to continue increasing and is expected to reach 78.85 million head in 2023, the highest level since 2007.

In the long-run, the price of lambs in WA is determined by the price of lambs in the Eastern States minus transport costs. This is the natural price floor for lambs in WA. This same dynamic does not apply to mutton.

It is undeniable that large interstate transfers have masked the downward price impacts of the northern hemisphere summer moratorium. This has enabled some commentators to erroneously claim that phasing out live sheep exports altogether will not cause much damage to WA farmers.

Mecardo¹¹ estimates that long haul road transport costs have gone from around \$5.80/km to \$8.50/km between 2017 and 2022 - a 60% rise over the period. For a 36kg lwt lamb, the freight cost per head has gone from roughly \$24 to \$39 and for a 55kg lwt lamb the freight cost per head has risen from \$33 to \$53. Rising costs for trucks and drivers have made up around three quarters of the increases in transport costs, meaning the price rises per km are likely to be permanent than would be the case if it were predominantly driven by fuel prices alone.

The Australian live sheep export trade for sheep is predominantly a feature of the WA market, which has significant structural differences when compared with sheep markets in the eastern states.¹²

Access to live exports is crucial to maintain optimal stocking densities and therefore farm productivity and sustainable management. If WA sheep farmers are denied access to live exports, they would likely run lower stocking densities, lowering farm productivity and profitability.

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 compares to the Eastern States, with 64% of 30.8 million ewes being merinos.

¹⁰ ACIL Allen (2023) op cit. p. 9

¹¹ Mecardo (2023), Australian Live Sheep Export Trade Analysis, p.3

¹² Unless otherwise mentioned, the section below is drawn from Mecardo (2023)

Most merino wethers in Eastern States are sold at a young age into the light “bag” lamb market. In WA, shorter seasons and lack of pastures mean merino wethers can reach target slaughter specifications without additional feeding – live export provides an outlet channel for semi-finished stock. Local processors tend to impose a penalty for these sheep – roughly 66% of live sheep exports are aged wethers and the remainder are lambs and hoggets.

In WA, the sheep flock decreased by 2% to 12.4 million head. The Western Australian sheep flock makes up approximately 18% of the national flock. The proportion of ewes in the WA flock has been increasing since 1990. Ewes now comprise the largest flock proportion at over 60% in 2021, compared to 45% in 1990.

This indicates a restructuring of the industry toward Sheepmeat and wool production. That is, a higher proportion of breeding animals are needed in the system, leaving wethers as surplus, especially when seasonal conditions are unfavourable (when feed is low or supplementary feed is expensive).

When ewes are past their useful life, they are generally sold into the domestic slaughter market. Wether numbers have decreased significantly, to only over 6% (2021) from 32% (1990). Lamb numbers have increased 10% in the last 20 years.

There has been little change to the ram numbers over time. ACIL Allen¹³ attributes at least part of this change due to a change in the definition of “lamb” that occurred in 2019.

Exporters provide price competition for sheep farmers for a class of sheep that domestic meat processors find less desirable because the sheep are heavier and older, and don’t meet the needs of Australian consumers. The sheep that go to live exports are typically run by sheep producers to grow wool. Processing these sheep domestically is not a viable proposition. Live exporters will add weight to these sheep and improve their condition prior to shipping. These sheep tend to produce meat that is leaner, which is preferred by our Middle Eastern customers. Our reputation for supplying a product that our customers want has served Australian sheep producers very well over the years and this all under threat. These factors give WA sheep farmers more confidence to run bigger flocks, with a greater emphasis on wool production.

The presence of live sheep exporters in the market has enabled WA to build a more productive and profitable production system overall (for grain, wool and sheepmeat collectively) that is better suited to their climate and natural environment than the production systems throughout the rest of Australia. This has been achieved in the past few years without any negative implications on animal welfare.

As ACIL Allen¹⁴ notes:

There are potential negative impacts for Western Australian sheep producers with the removal of live exports as a disposal option if domestic price trends continue and Western Australian slaughter capacity can’t absorb the additional sheep numbers.

¹³ ACIL Allen (2023) op cit, p.11

¹⁴ ACIL Allen (2023) op cit, p.14

In other words, there is simply no way live exports can be phased out with causing damage to that overall WA production system. WA farmers will not be able to hold as many sheep if they do without vastly bigger stores of feed grain.

Damage caused by an end to live sheep exports¹⁵

The following factors will have a key role in determining the future growth or decline in WA sheep meat and wool sectors:

- Pricing levels capable of producing satisfactory profit levels for sheep farmers
- Supply chains and access to services such as shearing teams and transport operators
- The attraction of other more financially rewarding farming operations (such as cropping).

An end to the trade will have implications for each of these factors and WA sheep farmers will be driven to make irreversible changes to their enterprise type, flock structure and/or their primary production focus (meat vs wool).

Buying activity for the live export trade increases competition in the WA market. As a natural experiment, the period of implementation of the moratorium on live sheep exports reveals that the discount for trade lamb deepens by around \$10 to \$20 per head during those months. Price volatility also increases.

Processing throughput runs in tandem with the seasonal nature of finished sheep and lamb turnoff in WA. Processors adjust their labour requirements to manage the seasonality of supply. Five major operators make up the WA sheep processing sector, and combined these operators have a maximum nameplate slaughter capacity of 460,000 head/month. Peak slaughter capacity is relatively inelastic over the short term, limited by the infrastructure and available labour.

Capacity constraints have been reported over the last 24 months, with significant backlogs occurring. This leads to quotas being imposed on producers attempting to send livestock for processing.

The seasonal nature of supply implies that substantial backlogs are likely to emerge at particular points of the year. Mecardo estimates, based on five-year average turnoff volumes in December, that a deficit of 40,000 head per month would likely emerge without live export. This would be higher if processors were not able to operate at full capacity.

The gap may be higher if the top five processors are not able to operate at 100 per cent capacity during that period. Of course, that capacity would not always be fully utilised throughout other times of the year. Live export takes pressure off the domestic processing sector during peak periods. Live exports also enable producers to turn off livestock in much higher numbers during a destocking phase (typically in dry years).

There is a strong inverse relationship between crop area and sheep flock numbers in WA. A move away from wool/sheepmeat production towards cropping would lead to less diversity of income streams for farm enterprises in WA and would increase the volatility of farm receipts.

¹⁵ Also drawn from Mecardo (2023)

An increase in cropping also has implications for the grains industry, which has seen logistics infrastructure stretched to capacity in the past two years. That option, of course, depends heavily on whether the land and local climate is suitable for increased cropping. For many areas in WA, this is an unviable option and so we will almost certainly see some farmers exit the industry altogether.

The entire production system in WA has developed over many decades and it has also had an impact on how sheep producers in the eastern states operate as well. Not only does it act as a risk management tool for WA farmers, but also those in other parts of Australia too. This arises partly because of the different climatic conditions experienced between the eastern and western parts of Australia.

Currently the geographic distance between WA and the eastern sheep-producing states means that WA flock acts as a buffer for sheep producers in other states, with WA acting as a reservoir that other states can draw upon during times of restocking from drought, enabling them to restock and resume production much more quickly than would otherwise be the case.

This provides producers in other states with greater confidence, enabling them to destock at the onset of a drought earlier and much more quickly, knowing that they can rapidly rebuild their flocks from the WA herd that is unlikely to have been similarly affected. It is also likely that producers in other states have less need to store feed and water on farm or buy them in during these times of transition.

Interstate transfers of sheep from west to east are sporadic and this risk management tool would be far less prevalent as it would not be viable for WA producers to maintain this reservoir if live sheep exports were not available as an option in the west.

WA accounts for approximately 20% of Australian wool production value and volume, producing around 375,000 bales in 2021/22. Around 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.¹⁶

ACIL Allen estimates that without the option of live sheep export trade there will be a 19.19% reduction in the per head value of a wether in WA, or in dollar terms a decline of \$21.84 per wether.¹⁷

Reduction in WA Cattle Exports

An end to the live sheep export trade will also have implications for the WA cattle market. Many boats carry a consignment of cattle to Middle Eastern markets through the practice of mixed species loading of live export carriers. For example, over the last five years, on average Australia has exported over 45,000 live cattle per year to Israel, predominantly lightweight bulls that may not have viable alternative markets.

¹⁶ Mecardo (2023), op cit. p. 10

¹⁷ ACIL Allen (2023) op cit p.30 (with a price response)

Impacts on exporters

The most direct impact on the live export sector will be felt by the exporters themselves.

Al Mawashi, the parent company for KLTT, recently built a new, modern slaughterhouse, compliant with the Exporter Supply Chain Assurance System (ESCAS) requirements and purchased a new livestock carrier, to enable them to meet requirements under both Australian Standards for the Export of Livestock (ASEL) and Australian maritime regulation.

These investments were valued around US\$100m and were undertaken on assurances given by the previous Government that the trade would continue. KLTT has, through its Australian subsidiary, Rural Export and Trading (WA) Pty Ltd (RETWA), invested heavily in the Australian supply chain as well, with investments in a registered establishment (RE)¹⁸, an office building and a feed mill which would be devalued. From 2018 to 2022 RETWA also spent around \$650 000 (co-funded with Meat and Livestock Australia) on projects in the Middle East to improve animal welfare and facility operations. This is in addition to around \$4.6 million worth of producer-levy funds spent by MLA in the Middle East directly in the early years of ESCAS implementation.

KLTT has stuck by Australia as we have reformed our regulatory framework. All of this was done in good faith and the value of these investments is set to be dramatically compromised. The Kuwait Government has also assisted Australia when other countries have rejected Australian livestock for animal health-related reasons.

Livestock Shipping Services (LSS) has also made significant investments in the Australian supply chain and in destination markets including Israel and Jordan, based on Australian regulatory requirements. Since the company's inception in 1998, they have built up a fleet of 5 livestock transport vessels that are approved by the Australian Maritime Safety Authority and have built an in-market consulting and development team devoted to improving livestock handling, animal welfare, food safety and meat hygiene in the markets of their customers.

The Australian operations of these companies would be decimated, and their assets would be significantly devalued.

Broader ramifications for the live export sector

Increased regulatory costs for all sea and air exporters

The Australian Government Department of Agriculture, Fisheries and Forestry (DAFF) is the regulator of live animal exports under the *Export Control Act 2020* and the relevant subordinate instruments, such as the *Export Control (Animals) Rules 2021*. This includes both ASEL and ESCAS.

Live animal exports are subject to the Australian Government's regulatory cost recovery guidelines and principles. The livestock export industry already faces the prospect of significant increases in fees and throughput charges as DAFF moves towards full cost recovery. Despite the release of an annual Cost Recovery Implementation Statement (CRIS),

¹⁸ Essentially a pre-export quarantine facility to prepare and screen livestock prior to export that is regulated under ASEL.

DAFF is rather opaque about the specific costs that drive the cost recovered fees and charges.

These expenses are quite invariant to the volumes of livestock being exported. That is, there are a considerable amount of expenses that are fixed. As the gap between revenue raised and expenses incurred closes, by virtue of a deliberate policy decision by the Australian Government, it stands to reason that the regulatory costs recovered from industry per head of livestock exported will increase.

Beyond that policy decision, phasing out live sheep exports will require DAFF's fixed expenses to be spread over a smaller base than would otherwise be the case. DAFF is already struggling to meet existing regulatory service levels in an efficient manner and under this policy, the cost recovery shortfall can only go one way – upwards. This is a direct threat to the cattle industry.

Impacting the viability of ALEC and the industry's Research, Development and Extension provider – the Australian Livestock Export Corporation (LiveCorp)

Both ALEC and Live Corp derive their funding from sources linked to livestock export volumes. In ALEC's case, our funding is derived from membership fees and voluntary levies paid by our members.

Live Corp is funded through statutory levies on exporters. These are based on volumes of livestock exported and so a ban on live sheep exports will necessarily reduce the company's revenue. LiveCorp provides important services to industry, including research, development and extension (RD&E) and marketing services (promotion of animal welfare standards and preference for Australian livestock). It also works closely with the regulator through various committees and working groups, including Protocol Committee, and has developed the LIVEXCollect reporting tool which is the approved way for industry to meet its reporting requirements under the Australian Standards for the Export of Livestock (ASEL).

The research program is funded through exporter levy funds that are matched by producer levies and government co-contributions. Therefore, any loss of exporter funding will be magnified through the loss of these matched funds also.

The workload of each organisation is unlikely to diminish to any significant degree, as there will still be a need to service other sea and air exporters. The regulatory requirements will remain and the regulator will still need to consult with industry.

The industry will have a diminished capacity to carry out these important functions.

Impacting the viability of AniMark and the implementation of LGAP

In a similar vein, the third-party provider of assurance, AniMark, will face similar challenges. AniMark is an independent, not-for-profit company, formed in 2018, to deliver the Livestock Global Assurance Program (LGAP).

AniMark operates under an Approved Arrangement for carrying out Exporter Supply Chain Assurance Operations (ESCAO) for feeder and slaughter cattle, buffalo, sheep and goats exported from Australia. LGAP is a means for exporters to demonstrate their compliance with ESCAS.

The live export industry has been working towards this model for many years and has invested millions of dollars, as has the Australian Government, and farmers, through producer levy-funded investments by Meat and Livestock Australia and LiveCorp.

As AniMark moves towards a fully commercial pricing model, it has noted that the phase out of live sheep exports will reduce its eligible throughput of animals. This will reduce the potential efficiency gains arising from implementing LGAP and will, therefore, unambiguously remove any downward pressure on regulatory costs for all other sea and air exporters.

Community sentiment toward livestock exports

Fundamental to any analysis of the impacts of any policy is the notion of community sentiment. It is one thing for individuals to say they dislike something. It is entirely another to ask them how much they are willing to pay to see that activity ceased.

While the costs of a phase out of live sheep exports have been clearly elucidated and demonstrated above, proponents of phasing out live sheep exports often refer to 'community sentiment' being against the trade. There is no publicly available analysis undertaken by, or for, the Australian Government that has ever sought to quantify the societal willingness to pay to cease live sheep exports from Australia.

First Assistant Secretary of the Traceability, Plant and Live Animal Exports Division, Mr Andrew McDonald, from DAFF confirmed that it has not undertaken any analysis of community sentiment, let alone gone the extra step to confirm and quantify any willingness to pay in the community.¹⁹

Without this analysis, DAFF cannot possibly meet the requirements for a Regulatory Impact Statement (RIS) or a 'RIS-like' process.

LiveCorp has commissioned the most empirically rigorous and independent assessment of community sentiment towards the live export industry over the past four years, through Voconiq. Voconiq is an Australian data science company built on a platform of research developed by Australia's national science agency, CSIRO.

From 2019 to 2023 between 4,300 and 4,800 people were surveyed randomly in each year. The sample was stratified across age, residence (metropolitan/suburban/regional), indigeneity, gender and education dimensions, so as to be representative of the Australian population. The findings of that research are summarised below²⁰:

- In general, live exports are seen by Australians as an important part of the agriculture sector, and important for farming communities. The position of live exports, socially and economically, has improved over the last four years
- Both trust and acceptance in the live export industry have increased modestly since this research began in 2019
- Perceptions of industry responsiveness are strengthening over time.

¹⁹ Andrew McDonald, First Assistant Secretary, Plant, Traceability and Live Animal Exports Division, Department of Agriculture, Fisheries and Forestry, responding to a question from Senator the Hon. Bridget McKenzie, May 25, 2023

²⁰ Voconiq (2023), Live Exports and the Australian Community 2019-2023

- While Australians remain concerned about animal welfare in the live export industry in 2023, responses in general have improved significantly since 2019. Australians understand that welfare is a complex issue and their views reflect growing awareness of the work of the industry to improve welfare outcomes and treatment in overseas destinations.
- There is growing positive recognition of the importance of the live export trade for the citizens of destination markets with respect to a range of health, cultural, and other benefits. The transfer of knowhow, technology and breeding stock to develop and maintain strong and higher welfare livestock industries in these destinations is also increasingly seen as a positive outcome by Australians.
- There is strong public confidence in the mechanisms used to apply and enforce standards on the industry.
- There was no significant difference in the way that Australians view live sheep exports relative to live exports in general.

Contrary to the claims made by animal activist organisations, the evidence from Voconiq shows that there is no widespread sentiment to cease live sheep exports or live exports in general. The Australian Government likes to claim that they won an election and therefore have a mandate to implement an election commitment to phase out live sheep exports. However, the Australian Labor Party also lost an election in 2019 with a similar commitment in place, at a time when the industry was implementing reforms and community concern about animal welfare in the industry was more acute.

The reforms that have taken effect since that time have led to significant improvements in animal welfare and mortality performance, particularly on livestock vessels (for all species).

The Voconiq results show that community sentiment towards the industry has improved since that time. The fact is that the Australian community wants to know that animals are treated humanely, whether they are processed domestically or exported live and processed abroad.

If proponents of the policy cannot demonstrate there is a societal willingness to pay beyond the costs the policy will impose, then the community as a whole will be made worse off, regardless of any compensation mechanisms or transition periods to ameliorate or soften the direct impacts.

Conclusion

Removing live sheep export by sea as a trade channel will require significant restructuring of the WA sheep industry as there is currently no scalable alternative market for the volumes of sheep types being supplied for live export. Local 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, given growers will have no alternative channels to sell their animals.

No matter what timeframe the Government sets to phase out live sheep exports, the fact is that the transition will be to a smaller sheep flock in WA, a smaller 'reservoir' of breeding ewes for the eastern states and greater overall climate and financial risks in sheep production. No amount of compensation can change the fact that Australia will produce less

wool and sheep meat as a direct result of this policy. This, of course, is in addition to the damage to our international trading reputation.

An alternative market is sorely needed in WA currently as a dry start to the season, a backlog in abattoir capacity, the northern hemisphere summer moratorium and a lack of demand from eastern states has a large number of WA producers with surplus stock that are quickly losing their value for the processing markets as they age costing WA producers resources and income. While the live sheep export industry will never back away from the northern hemisphere summer moratorium as a necessary animal welfare measure, the ability to divert sheep via live export under these conditions would be very much welcomed.

In many respects, the industry is seeing a preview of what the future holds if the live sheep industry is closed.

Disappointingly, the Australian Government's policy to phase out live sheep exports is also undermining confidence in the WA sheep market and exacerbating these conditions.

Arguments have been put that these conditions necessitate a swifter consultation on the phase out. However, ALEC believes these circumstances underscore why the policy is wrong, demonstrating how it will adversely affect Western Australian farmers and their families. It is precisely why the panel has a responsibility to them to conduct its process accurately, thoroughly, transparently and honestly to provide the best possible advice to Minister Watt.

Live exports of sheep serve a valuable part of Australia's food production system, trading relations, economy and in the case of both exporters and farmers, their livelihoods. It cannot and should not be "phased out".

Yours Sincerely



David Galvin
Chair
Australian Livestock Exporters Council