

REGULATION IMPACT STATEMENT

LIVESTOCK EXPORTS – REGULATORY FRAMEWORK FOR ANIMAL WELFARE ASSURANCE

1. SCOPE OF THE REGULATORY IMPACT STATEMENT

On 8 June 2011, the Minister for Agriculture, Fisheries and Forestry announced that the Australian Government had suspended the export of all livestock to Indonesia until new animal welfare safeguards could be established that provided supply chain assurance for the export of Australian livestock to Indonesia for feeder and slaughter purposes.

On 6 July 2011, the Minister for Agriculture, Fisheries and Forestry announced that the Government had issued revised export control orders to resume trade in livestock to Indonesia as a new regulatory framework that provided animal welfare assurance have been established. The Australian Government had developed a new regulatory framework for the export of livestock to Indonesia in partnership with industry. The regulatory framework only allowed Australian livestock to be exported to Indonesia where an exporter could show that their animals would be handled and processed through supply chains in accordance with internationally accepted animal welfare requirements right through to the point of slaughter.

A regulatory impact statement was not completed at the time of making the decisions to suspend and resume the livestock export trade to Indonesia. Instead a post-implementation review following the implementation of the new arrangements in Indonesia was undertaken.

This document includes a post-implementation review for the suspension and resumption of the livestock export trade with Indonesia. The post-implementation review includes adequate information to meet the best practice regulation requirements of the Office of Best Practice. This document is also a regulation impact statement for the proposed regulatory framework which extends the framework to the export of all Australian livestock to all markets.

2. BACKGROUND

2.1 *Australia's livestock export industry*

Australian export of livestock is a valuable component of Australia's livestock industry, and supports approximately 10,000 jobs¹, many in rural and regional Australia. Australia exported 3.8 million feeder and slaughter cattle, sheep and goats in 2010, valued at \$863 million and accounting for 2.7 per cent of Australia's agricultural exports.

The industry is concentrated within specific regions. For example, over the period 2006 to 2009, more than 90 per cent of total live cattle exports were sourced from the Northern Territory, Queensland, and Western Australia. Over the same period between 70 and 80 per cent of live sheep exports were loaded from Western Australian ports.²

Overall, Australia is the world's largest exporter of cattle, sheep and goats for slaughter. It is the world's largest live sheep exporter, and fourth largest cattle exporter. The trade from Australia is very important to some overseas countries. Australia is the major, and in some cases the sole, supplier of livestock imports in certain overseas markets. A number of importing countries are heavily dependent on these imports for food security and, in some cases, social harmony.

The industry is high risk because it handles sentient animals along an extended production chain, from farm to discharge into the market to subsequent handling and slaughter in a foreign country. There are high public expectations that the positive welfare of animals will be maintained throughout supply chains despite part of them being beyond Australia's direct regulatory control. The industry has been subject to a number of high profile animal welfare related events and reviews. These have resulted in extensive development of the regulatory environment over the past 10 years. There has been considerable improvement in conditions for the positive welfare and handling of livestock within Australia and overseas.

The structure of the livestock export industry involves several thousand producers in Australia supplying animals to a limited number of exporters. Exporters then trade with a small number of importers in each importing country, who distribute animals to farms, feedlots, abattoirs and other facilities. While there are only a small number of exporters, they are of varying size and there are no significant barriers to entry to the industry. However, international freight of livestock is typically concentrated to take advantage of economies of scale.

¹ MLA, 2007, p. 3

² CIE 2011, p. 21

2.2 Exports of live cattle

The Australian live cattle export industry was worth \$660 million in 2010-11. Of this, export of live cattle for slaughter purposes totalled \$503 million. Exports of live cattle (for slaughter) accounted for 9 per cent of total Australian cattle turnover.

In 2010-11, Australia exported 731,463 head of cattle for feeder/slaughter purposes, principally to South-East Asia and the Middle East, including Indonesia (457,837 head - 63 per cent), Israel, Turkey, Saudi Arabia, Malaysia, Japan, the Philippines, Jordan and Brunei Darussalam.

Australian live beef cattle exports (excluding breeding cattle) no. head

	2007-08	2008-09	2009-10	2010-11	% of total (2010-11)
Indonesia	546,906	699,859	699,586	457,837	62.6
Turkey			168	100,935	13.8
Israel	58,980	27,710	36,430	50,416	6.9
Malaysia	24,211	19,456	4,600	19,721	2.7
Libya	21,150	25,496	19,269		0.0
Saudi Arabia	10,271	23,031	7,668	19,508	2.7
Egypt			33,351	23,090	3.2
Japan	20,244	17,191	15,479	12,389	1.7
Philippines	15,480	10,318	14,427	15,647	2.1
Jordan	891	9,965	27,542	9,328	1.3
Russian Federation				9,014	1.2
Brunei Darussalam	5,955	3,668	3,423	4,008	0.5
Bahrain		6,206	2,391	1,260	0.2
Mauritius	2,370	900	800	1,200	0.2
China	47		2,811	2,000	0.3
Qatar		399	791	2,370	0.3
Kuwait	750	481	1,345	890	0.1
Other	851	0	544	1,850	0.3
Total	708,106	844,680	870,625	731,463	

Source: Australian Bureau of Statistics, *International Trade, Australia (June 2011)*, Catalogue No. 5465.0

2.3 Exports of live sheep and goats

Most live sheep exported for slaughter from Australia (2,912,242 head in 2010-11) are destined for markets in the Middle East, especially in the Arabian Gulf. In 2010-11, Australia exported 2.8 million sheep to markets in the Middle East, valued at \$339 million.

Malaysia is Australia's largest market for live goat exports, accounting for 85 per cent of the total volume exported (68,282) in 2010-11. In 2010, Australia had exported 77,414 goats, valued at \$10.3 million.

Australian live sheep exports (excluding breeding sheep), annual, no. head

	2007	2008	2009	2010	% of total
	-08	-09	-10	-11	2010-11
Kuwait	971,969	923,870	953,587	1,153,765	39.6
Bahrain	611,100	776,315	579,983	439,731	15.1
Turkey				397,916	13.7
Qatar	228,934	331,507	389,751	315,931	10.8
Jordan	288,491	314,406	446,928	212,579	7.3
Saudi Arabia	948,062	943,016	319,487	153,572	5.3
United Arab Emirates	184,243	146,892	101,153	66,187	2.3
Israel	60,834	11,000	35,400	55,000	1.9
Oman	740,351	562,249	135,024	50,346	1.7
Other	34,988	54,691	93,990	67,215	2.3
Total	4,068,972	4,063,946	3,055,303	2,912,242	

Source: Australian Bureau of Statistics, *International Trade, Australia (June 2011)*, Catalogue No. 5465.0

Australian live goat exports, by destination, no. head

	2007	2008	2009	2010	% of total
	-08	-09	-10	-11	exports
Malaysia	68,563	73,863	84,678	58,163	85.2
Singapore	2,812	4,640	6,795	8,718	12.8
Brunei Darussalam	855	6,109	1,557	534	0.8
Turkey		58		449	0.7
Thailand	2,451			341	0.5
Philippines	346	2,765	2,089	54	0.1
United States of America			38	23	0
			36		0
New Zealand		6	117		0
United Arab Emirates		66			0
Other	3,250	0	0	0	0.0
Total	78,277	87,507	95,310	68,282	

Source: Australian Bureau of Statistics, *International Trade, Australia (June 2011)*, Catalogue No. 5465.0

2.4 World Organisation for Animal Health (OIE)

The OIE is the intergovernmental organisation responsible for improving animal health worldwide. It is recognised as a reference organisation by the World Trade Organization (WTO) and sets the international animal health standards and animal welfare standards. In 2011 the OIE had a total of 178 member countries and territories. OIE members have mandated the organisation to take the lead internationally on animal welfare and, as the international reference organisation for animal health, to elaborate recommendations and standards covering animal welfare practices.

The OIE Terrestrial Animal Health Code 2010 (the OIE Code), provides considerable detail on the humane treatment of animals during transport, holding and slaughter. Since 2005, four standards relating to the humane treatment of animals have been formally adopted by the World Assembly of the delegates of the OIE members, which is the highest authority of the OIE and comprises delegates of all member countries. The four standards are:

- Transport of animals by sea;
- Transport of animals by land;
- Transport of animals by air; and
- Slaughter of animals.

The OIE expects that member countries will adopt domestic animal welfare requirements and regulations that are consistent with the OIE's animal welfare requirements.

2.5 International legal considerations

The export of Australian livestock needs to be done in a manner which is consistent with Australia's international trade obligations. Export restrictions are generally prohibited under World Trade Organization rules, but may be permitted to protect animal health or welfare in some circumstances. To meet international trade rules, any measures Australia imposes must be the least trade restrictive to meet the required standard of animal welfare. In addition, Australia may not require standards to be met in other countries which exceed those which apply in Australia. Further, any standard must not be applied in a discriminatory way between different export markets.

2.6 Post-Implementation Review

Livestock export to Indonesia

In May 2011, footage was released of the mistreatment of Australian cattle in some Indonesian abattoirs. In response to this evidence of the mistreatment of cattle in Indonesia, the Government suspended the livestock feeder/slaughter export trade to Indonesia from 8 June to 6 July 2011. During the suspension, the Government along with industry had developed a new regulatory framework for the export of feeder/slaughter livestock to Indonesia. On 7 July 2011, the Government announced the resumption of trade to Indonesia and the commencement of the new regulation requirements.

For Indonesia, most exporters have been able to put in place arrangements for control of the supply chain and for traceability of animals throughout the supply chain. This provides some evidence that the new regulatory framework has so far been effective, at least for Indonesia. A full assessment will require more time to allow animals to be fully processed through the system and independent audit reports and end-of-consignment/processing reports to be received.

The Independent Review into Australia's Livestock Export Trade (the Farmer Review) found that the suspension of trade with Indonesia had the effect of impressing upon industry and overseas countries that animal welfare issues would be central to Australian Government consideration of livestock export trade issues. The suspension affected Australia's reputation as a reliable supplier of livestock.

It also caused widespread concern among communities in Australia connected with the trade, led to the Australian Government's agreement to sizeable assistance payments, and caused some welfare concerns in relation to livestock unable to be shipped because of the suspension.

A study of the financial impacts of the cattle export restrictions to Indonesia was conducted by Hydros consulting. Discussions were held with 80 stakeholders in the Kimberley and Northern Territory and focused on small to medium producers.

The report found that uncertainty about the duration of suspension was reported by 75 per cent of farm businesses to be the most important short-term constraint to managing the trade's suspension. The report observed the following:

- Constraints included finance and cash flows, insufficient information on alternative markets, availability of feed, availability of livestock transport and insufficient information on alternative markets.
- With the increase in risk associated with the fall in values and in cash flow banks may have increased their interest margins by at least 2 per cent to allow for the greater risk now perceived with the export market.
- Many valuers and estate agents advised that they believed stations had reduced in value by approximately 40-50 per cent after the export ban.
- The large number of industries which service the cattle producing industry have suffered with the cessation of export sales. For example:
 - exporters, which have suffered a 70 per cent or more, reduction in sales;
 - transport companies have potentially experienced a significant reduction in revenue; and
 - stock agents have experienced a marked decline in stock sales.
- Producers could incur higher costs associated with over-supply of livestock which is not sold prior to a permanent ban. The costs relate to transport costs to move animals to different domestic abattoirs and increased costs for feed, medical attention and agistment.
- ABARES conducted a survey of beef cattle producers in northern Australian live cattle export regions in late June and early July 2011 to determine the effects on farm businesses of the suspension of the trade with Indonesia (which at the time was still halted). Of the estimated 1459 farm businesses in the regions with more than 100 beef cattle, 660 intended to export cattle to Indonesia in 2011, with 300

of these intending to sell more than 50 per cent of their total cattle turn-off to that trade.

- Uncertainty about the duration of the suspension at the time of the survey was reported by 75 per cent of farm businesses to be the most important short-term constraint to managing the suspension. Other important constraints included finance and cash flows, insufficient information on alternative markets, availability of feed and availability of livestock transport.
- Regions with the highest dependence on the trade to Indonesia include those in northern Western Australia and the northern regions of the Northern Territory. Farm businesses in northern Australia intended to export 597 000 head of cattle to Indonesia in 2011 (or 33 per cent of total regional cattle turn-off), despite the import quota set by the Indonesian Government of 500 000 head of cattle. At the time of the survey around 63 per cent, or 375 000 head, remained unsold. Of these, 274 000 were ready for the Indonesian market—with 57 per cent of these in the Northern Territory, 31 per cent in northern Western Australia and 11 per cent in northern Queensland.

Only 32 per cent of farms with cattle on hand and intended for export to Indonesia were actively seeking alternative markets for these cattle at the time of the survey. For those seeking alternative markets, a range of options were being considered—including sales to other overseas markets and to feedlotter or backgrounders.

Around 326 employees are estimated to have been either laid off or not hired by businesses between the announcement of the suspension (8 June 2011) and the end of June. The majority of these staff reductions were reported to be in the Northern Territory. A number of farm businesses also reported reducing engagement of contractors, including contract musterers.

Around 46 per cent of farm businesses in northern Australia with cattle remaining for export to Indonesia made changes to business management in response to the suspension of the trade, with the highest proportion (83 per cent) in northern Western Australia. These changes included: deferring non-essential expenditure on capital, plant, infrastructure and repairs; changing or delaying mustering; returning of mustered cattle to mustered areas; delaying loan repayments; and reducing staff numbers.

Around 5 per cent of businesses indicated that they would be unlikely to continue to operate beyond a few months if the suspension continued due to existing high debt levels, reduced cash flow and the assumed effects of a prolonged suspension on land values and farm business equity. A high proportion of farm businesses (74 per cent) anticipated they would need to find alternative markets for cattle, with most indicating they would probably be forced to sell into lower priced markets to generate cash flow and reduce stocking rates. Around one-third of respondents indicated that they may need to address land degradation issues arising from overgrazing.

The first shipment of live feeder cattle to Indonesia since the suspension was lifted arrived in Indonesia on 17 August 2011. It is expected that a large number of feeder/slaughter cattle - as many as 200,000 head - will be able to be exported before the end of 2011. The Department of Agriculture, Fisheries and Forestry has received Notices of Intention to export over 74 000 head of cattle, as at 8 September 2011.

PROBLEM

2.7 Animal welfare assurance

The welfare of animals is becoming increasingly important to livestock industries, governments, consumers and the general public, both in Australia and overseas. The OIE identifies animal welfare to mean “how an animal is coping with the conditions in which it lives. An animal is in a good state of welfare if (as indicated by scientific evidence) it is healthy, comfortable, well nourished, safe, able to express innate behaviour, and if it is not suffering from unpleasant states such as pain, fear, and distress”.³

In Australia, domestic regulation and practice is in place to support the handling of livestock in a manner that meets acceptable animal welfare outcomes. However, the the Farmer Review found that improvements can be made and the Australian Government is working with state and territory governments to develop nationally consistent and enforceable standards for animal welfare.

The livestock export trade has received criticism regarding the treatment of livestock exported from Australia to supply chains in foreign markets – that livestock are not being handled in a manner that meets the internationally agreed animal welfare requirements (under the OIE) at the point of unloading, at the feedlot, at the abattoir/slaughter facility and at other defined intermediate stages of the supply chain in foreign markets.

Practices have been observed in a number of importing markets that are incompatible with the OIE requirements⁴. These included:

- hoisting of conscious animals by a leg
- ineffective/inappropriate use of stunning equipment
- severing the spinal cord using a puntilla
- inappropriate use of pointed implements to try to move animals
- moving animals over the top of recumbent animals in a race
- slaughtering animals in view of other animals waiting for slaughter
- allowing insufficient time between the cut and further movement of the animal.

With the exception of Indonesia and Egypt there is no current requirement for livestock being exported from Australia to be handled and slaughtered through supply chains that meet internationally accepted requirements under the OIE.

³ Terrestrial Animal Health Code, Chapter 7.1

⁴ Independent Review into Australia’s Livestock Export Trade, 2011.

2.8 Scale and scope of animal mistreatment

While, Australia and all its livestock trading partners are members of the OIE, not all markets adopt or enforce the OIE requirements to the same degree. It is known that a wide variety of practices are used in other countries, some of which may not meet these requirements.

The Farmer review visited some importing countries and observed that international adherence to the OIE requirements is mixed with significant variations in conditions in different countries, and in different supply chains within the same country. In some cases, the practices observed fully met the OIE requirements. In other cases, they fell below, and in some cases well below, the OIE requirements. A wide variety of circumstances were encountered, in areas such as degree of government involvement, existence and enforcement of animal welfare legislation, impact of cultural norms and religious beliefs, animal handling practices, quality of facilities and security of supply chains.

However, the Australian Government and industry have little ongoing visibility of activities in some foreign supply chains with regards to the treatment of animals and whether this complies with OIE requirements. The Farmer Review visited a number of key foreign markets for Australian cattle, sheep and goat exports. He observed that the lack of detailed information on processes and practices in importing markets may be partly explained by the fact that with the exception of exports of feeder and slaughter cattle to Egypt and Indonesia, the current regulatory framework for the Australian livestock trade finishes at point of disembarkation.

The Farmer Review also observed that in a number of markets there has been a pattern of animals being removed from supply chains for sales to individuals, farmers or small abattoirs, often leading to inability to have any assurance about subsequent handling and slaughter practices. These sales which can result in handling and slaughter that is not in specific-purpose premises (private sales) is an area that presents a high risk that practices of slaughter do not meet the OIE requirements.

There is significant increased demand for live sheep exports to the Middle East during religious events such as the Eid al-Fitr, and Eid al-Adha. The increased demand for sheep and the number of private sales during these periods increases the risk with animal welfare issues around the slaughter of these animals.

2.9 Existing Australian regulation

All Australian livestock for export must meet the Importing Country Requirements, Commonwealth Export Legislation and the Australian Standards for the Export of Livestock (ASEL). The ASEL includes the standards for on farm sourcing of animals, land transport, management of animals in registered premises, vessel preparation and loading and on-board or air transport management of livestock.

The ASEL also references animal health and welfare requirements of the State and Territory legislation. Whilst the livestock are in Australia, the person in charge of the livestock must manage the animal health and welfare in accordance with the relevant State and Territory legislation. State and territory governments are responsible for ensuring these requirements are met.

The Australian Government is responsible for export policy, regulation of livestock exporters, registered premises operators and AQIS accredited veterinarians, and undertakes activities including licensing livestock exporters, inspections of livestock prior to export, and issuing health certificates and export permits. The Australian Government is also responsible for the development of the ASEL.

The assessment and issuance of livestock export certification is primarily regulated by the following Commonwealth legislation:

- *Export Control Act 1982*
- *Export Control (Prescribed Goods – General) Order 2005*
- *Export Control (Animals) Order 2004*
- *Australian Meat and Live-Stock Industry Act 1997*
- *Australian Meat and Live-Stock Industry Regulations 1998*
- *Australian Meat and Live-Stock industry (Export Licensing) Regulations 1998*
- *Australian Meat and Live-Stock Industry (Standards) Order 2005*

Australia has no jurisdiction to regulate in other countries. However, the Australian Government has implemented supply chain assurance for the export of cattle to Egypt and a regulatory framework specific to the export of livestock to Indonesia in response to evidence of the mistreatment of animals in these markets.

The respective regulatory frameworks identify that the exporter is the entity responsible for the supply chain assurance system. These specific requirements are required under:

- *Australian Meat and Live-Stock Industry (Export of Live-stock to Egypt) Order 2008 (Second order)*
- *Australian Meat and Live-Stock Industry (Export of Live-stock to the Republic of Indonesia) Order 2011 (No. 2)*

2.10 Relevant risks

The key risk to the sustainability of Australia's livestock export trade to foreign markets is that animals will pass through supply chains that do not meet the OIE requirements, resulting in poor animal welfare outcomes. If the animal welfare outcomes cannot be met, this jeopardises the ongoing feasibility of the livestock export trade.

This potential for suspension of the trade in this environment creates uncertainty for the livestock export industry and can undermine the stability of local economies and security of individuals' income source.

The uncertainty also poses risks for international trading partners food security and related industries (including employment) and damage Australia's general reputation as a reliable supplier of commodities and foodstuffs to international markets.

2.11 Case for considering additional government action

All of Australia's markets for livestock exports are members of the OIE. However the adoption of OIE requirements across supply chains in foreign markets is inconsistent. The current approach depends on the self-regulation of the trade by the livestock export industry and the policies and practices of the importing country. There have been efforts made by Australia's livestock export industry (within the laws of the receiving country) and the Australian Government to improve standards in foreign supply chains. Arrangements have been put in place for livestock exported to Indonesia and cattle exported to Egypt to assure that these animals pass through supply chains that meet OIE requirements, but there are not similar arrangements for livestock exported to other markets and all species.

The Australian Government also has a role in supporting more sustainable, productive, internationally competitive and profitable Australian agricultural and food industries, as well as supporting improved access to international markets. The Australian Government plays a lead role in working with trading partners to support international relationships and Australia's other international trade interests. The uncertainty for trading partners on the reliability of the trade has the potential to affect Australia's trade arrangements for other sectors and in other markets. It is important for the Australian Government to work with trading partners to support international relationships and Australia's other international trade interests.

There is a growing expectation by the Australian public that more should have been achieved to date. For example, following the recent footage of the mistreatment of Australian cattle in some Indonesian abattoirs the Australian public demonstrated a strong reaction to the livestock export trade through participating in public rallies, writing to elected officials and encouraging media interest.

Since 31 May 2011, there were a total of 224 media inquiries to the Department of Agriculture, Fisheries and Forestry and 17,000 media items in Australian media (print, radio, TV) on livestock exports.⁵ The Australian Government has received over 150 000 pieces of correspondence (largely campaign emails) from individuals and organisations.⁶ There have been a number of public protests against the trade in livestock (Animal Australia's National Day of Action on June 18 2011 and RSPCA national rallies on 14 August 2011) and two private members' bills advocating the ban of the livestock export trade were introduced into the Australian Parliament.

There has been increased activity via online social networking sites for example increases to the memberships of Facebook pages which support various positions on the livestock export trade.

⁵ As at 5 September 2011.

⁶ As at 5 September 2011.

The Senate inquiry into animal welfare standards in Australia's livestock export markets received over 427 submissions from individuals, industry and other organisations/bodies. Similarly, the Farmer Review received over 500 submissions from a range of individuals, organisations and governments in Australia and overseas.

2.12 Summary of Problem

The current approach to live animal exports does not require assurance that animal welfare outcomes meet international (OIE) requirements. Given the wide variety of countries and circumstances the current approach is unlikely to be effective in achieving multiple goals of maintaining trade and animal welfare. The current approach does not meet the community's expectations regarding the treatment of Australian livestock.

The recent suspension of the livestock trade to Indonesia has highlighted significant negative impacts on a range of international and domestic stakeholders. Uncertainty for the live animal export trade into the future is an issue for the current approach.

3. OBJECTIVE OF GOVERNMENT ACTION

The Australian Government's objective is to support a sustainable livestock export trade which safeguards animal welfare outcomes consistent with meeting the OIE animal welfare requirements.

4. OPTIONS AND IMPACT ANALYSIS

4.1 Stakeholders

Stakeholders represent both domestic and foreign interests. In some regions the livestock export industry in Australia is a significant contributor to the local economy and community, providing employment, income and attracting investment and infrastructure. Australian livestock producers are supported by a number of ancillary services such as livestock agents, transporters, feed producers, mustering businesses and financial institutions which rely on or benefit from the activities of the industry. Changes to the operations of livestock producers can have flow-on effects to the local community and other sectors and services within the community.

In addition, the broader community (including animal welfare organisations) is a stakeholder in the livestock export trade and has influenced the practices of the trade as seen through the previous suspensions in Egypt and Indonesia and the increasing expectation that Australian exports will comply with OIE requirements.

The broad stakeholder groups in the livestock export trade include:

- Exporters
- Producers – farmers, pastoralists and traders
- Ancillary service industry - livestock agents, mustering services, feed producers, stockmen, stock and station agents, saleyard operators, farm supplies businesses, transport industry participants (overland and sea), port/dock workers,

veterinarians, financial services sector (banks and other financial institutions that provide funding for commercial trade)

- Communities and families dependent on the livestock export trade
- Animal welfare groups and their members
- International - market industries, workforce and consumers and communities dependent on the livestock import trade

4.2 Option 1 - Allow the livestock export trade to continue for existing and new markets on the basis that industry is working to minimise the proportion of Australian animals handled at welfare requirements below OIE. The Australian Government continues to encourage OIE members to adopt and implement OIE animal welfare guidelines.

This option represents the status quo for markets other than Indonesia and Egypt. It would look to utilise our trading status and good international relations to further improve animal welfare outcomes.

4.2.1 Current regulatory requirements

The current arrangements include Australian Government checks during the preparation of the consignment to ensure compliance/consistency with the export legislation, ASEL and importing country requirements, and if requirements are met, issuance of export certification. The regulation includes monitoring the outcomes of the export journey up to the point of disembarkation from the vessel or aircraft. With the exception of some livestock exports for slaughter purposes to Indonesia and Egypt, the post arrival arrangements have been self regulated by industry, subject to the laws of the receiving countries.

4.2.2 Effectiveness of the current approach

There have been some improvements to date in raising the standards in foreign supply chains to meet OIE requirements through non-regulatory activities. For example, through the Live Trade Animal Welfare Partnership (LTAWP), a government initiative that commenced on 1 July 2009, and its predecessor program, the Live Animal Trade Program (LATP), the Government and livestock export industry have worked with importing countries to improve post-arrival handling and slaughter practices.

Funding has enabled better infrastructure to reduce livestock stress or injury, and training for feedlot and transport staff in overseas markets. This has included, for example, a series of workshops to targeted feedlot managers, livestock handling and transport operational staff, feedlot stockmen and importers in seven countries (Oman, Bahrain, Qatar, Jordan, Israel, Kuwait, and Saudi Arabia). Participants were provided with the latest information relating to key areas of OIE animal welfare requirements, animal health and disease, heat stress, feedlot management systems, commercial benefits of improved animal welfare, animal husbandry and optimal handling and transport techniques.

The Australian Government and the livestock export industry have worked cooperatively with trading partners in the Middle East to address post-arrival welfare concerns and to improve the transportation, handling and slaughter practices. Initiatives included investments to improve infrastructure and training to promote better animal handling and slaughter practices.

The United Arab Emirates (UAE) Ministry of Environment and Water's Animal Health Department sought assistance from Australia to establish an animal welfare office, draft animal welfare regulations and guidelines for their 2007 Federal Animal Welfare Law and establish a UAE Animal Welfare Committee to oversee the implementation and enforcement of the by-laws in the seven Emirates of the UAE. Australia worked with UAE in March 2008 and wrote the by-laws (regulations) based on contemporary Australian welfare regulations. They were proclaimed by the UAE Minister in May 2008. Further assistance was provided in October 2008 to conduct training of UAE animal welfare inspectors responsible for implementing the by-laws.

The Australian Government has provided input to the development of OIE requirements and has coordinated the development and implementation of a Regional Animal Welfare Strategy for Asia, the Far East and Oceania, which aims to assist OIE members' countries adopt and implement OIE animal welfare guidelines.

These activities were aimed to provide improvement to animal welfare but involve long lead times to impact positively on the various targeted aspects of the treatment of animals within foreign supply chains. While improvements have been made it can be argued that the community perception is that the improvements are insufficient. The practices have not expanded to all markets and species and the changes have not been quick enough as poor animal welfare practices identified in some overseas markets have shown with the subsequent suspension of the trade with Saudi Arabia, Egypt and Indonesia. The Australian Government is now expected to address animal welfare concerns in the livestock export trade in a more immediate, direct and holistic manner. The Farmer Review found that there is widespread support for the Australian Government's policy of securing assurance of animal welfare, concluding that the trade is sustainable only if it can demonstrate animal welfare outcomes acceptable to the Australian community.

4.2.3 The Farmer Review

The Farmer Review found that changes made following the Keniry review (2003), including Australian Government licensing of exporters and the development of the Australian Standards for the Export of Livestock (ASEL), have led to significant improvements, with all the domestic elements of the export supply chain operating substantially better than before the Keniry Review. Operational efficiency and risk management procedures are generally sound and appreciation of welfare issues has increased.

It was the view of many respondents to the Farmer Review that since the introduction of ASEL the industry has been better regulated, better managed and has performed better in terms of animal welfare outcomes. Many also acknowledged that the Standards are imperfect and that management, operation and regulation of the livestock export industry under ASEL is an evolutionary process, subject to review and continuous improvement.

The Farmer Review also found that the industry made clear in its submissions to the review, that the status quo is not an option and that it is looking to take steps to improve animal welfare necessary to ensure sustainability of the trade. The Farmer Review heard similar views from other sections of the livestock export industry. In all these circumstances there appeared to be a strong view that further uncertainty and disruption were undesirable.

The Farmer Review observed in a number of markets there has been a pattern of livestock being removed from supply chains for sales to individuals, farmers or small abattoirs. Overall, under current arrangements, there are a number of possibilities for removal of livestock from the supply chain. While industry has done some work to develop understanding in some markets that Australian livestock should not be sold out of supply chains, in cases where this assurance cannot be provided, the Farmer Review concluded that there can be no assurance of animal welfare.

Case Study – Livestock Exports to Egypt

A more active Government-led approach is being used for cattle exports to Egypt. Live exports (cattle and sheep) to Egypt were suspended on 26 February 2006 following reports of mistreatment of animals.

In September 2006, Egypt and Australia signed a Memorandum of Understanding (MoU) on Handling and Slaughter of Australian Live Animals to address animal welfare concerns by providing additional controls on post-arrival animal handling and welfare. Egypt is the only export market with which such an MoU has been signed. An additional MoU on Trade in Live Animals was also signed at the same time that provides assurances that the animals will be unloaded on arrival into Egypt, consistent with a number of other Middle Eastern countries.

Key provisions in the MoU on Handling and Slaughter of Australian Live Animals include:

- infrastructure and handling requirements, in line with OIE animal welfare standards, at the port of arrival, holding facility, transportation, and slaughterhouse;
- traceability of Australian live cattle from port of export to point of slaughter;
- regular inspections by approved Australian veterinarians of approved Egyptian facilities, systems and procedures to confirm that the handling and slaughter of Australian animals are compliant with OIE animal welfare standards; and
- cooperation through specific projects to be mutually agreed to underpin improvement in Egyptian animal handling and slaughtering practices.

In 2010 trade recommenced with the approval of a single facility in Egypt (Ain Sokhna) for the handling and slaughter of Australian cattle. In September 2011, a second closed loop facility was approved in Egypt for the handling and slaughter of cattle. It consists of an integrated feedlot and slaughterhouse at Ismailia.

4.2.4 Memorandums of Understanding

Australia has had formal non-regulatory arrangements (Memorandums of Understanding) in place with a number of countries relating to livestock exports. Other than Egypt, these apply a requirement for unloading of animals at point of arrival in the destination country.

As government-to-government agreements, these Memorandums of Understanding (MoUs) provide for contingency arrangements to be put in place should concerns be raised about the health status of a consignment on arrival. All the MoUs that have been finalised make reference to the expectation that the Parties will comply with their OIE rights and obligations. However there are no specific actions required by the signatories under the MoUs nor is there any agreed compliance regime.

The process of negotiating an MoU provides benefits in terms of establishing a framework for dialogue with the importing country authorities. The MoUs also provide for technical cooperation to improve animal welfare. Cooperation projects have been delivered in the past through the Live Animal Trade Program (LATP) and now through the Live Trade Animal Welfare Partnership (LTAWP). This has facilitated mechanisms such as infrastructure development and technical assistance.

In terms of government-to-government dealings, the Farmer Review considered whether MoUs should be replicated in additional countries or whether additional elements should be sought for inclusion in existing MoUs on the introduction of the proposed new arrangements. The Farmer Review advised that the Australian Government will need to keep an open mind on the issue of additional MoUs, especially if it perceives potential need in new markets for assurances on animal disembarkation of the type which are central to the existing MoUs. Otherwise there is no need for a single approach on the issue of MoUs. Negotiating MoUs can be very time-consuming; and the Indonesian experience so far suggests that a formal MoU will not be necessary or appropriate in all cases. On the other hand, some importing countries might have their own reasons for proposing an MoU or other agreement—preferred ways of doing business, assurances for food security or other. Overall a case-by-case approach will be necessary.

Defining Responsible Investment

Responsible Investment is a term that has emerged over the last five years to describe a process where an investor incorporates environmental, social and governance (ESG) factors into their investment decision making. Responsible Investment is an umbrella term, with varying interpretations as to the actual methodologies that may be adopted to factor ESG issues into investment decision making processes.

At its centre is the concept of using influence to change environmental, social and governance outcomes – such as animal welfare. This influence comes about by remaining ‘in the tent’ and looking to achieve better outcomes rather than exiting the investment (or market). Exiting the market may allow the individual or corporation to avoid ‘responsibility’ for particular environmental, social or governance outcomes but it may not lead to different outcomes.

In this current context, the Australian industry has already been very active in looking to attain better welfare outcomes. It is possible that remaining in some markets has improved animal welfare outcomes relative to completely exiting the market.

If animal welfare cannot be assured to OIE requirements and meet community expectations, this poses a risk for the Australian industry (producers through to exporters) in terms of being able to secure capital to enable investment in the livestock export trade. There is also a risk that Australian live animal producers may choose to exit this industry if costs of assuring animal welfare are too high or the trade is seen as too risky.

4.2.5 Costs

Individual/businesses

The current arrangements include Australian Government checks during the preparation of the consignment to ensure compliance/consistency with the export legislation, ASEL and importing country requirements, and if appropriate, issuance of export certification. Currently, DAFF applies fees and charges to exporters as outlined in the *Export Control (Fees) Orders 2001*. These fees and charges cover activities such as export licensing, assessment and approval of a livestock registered premises, assessment and approval of a Notice of Intention to export as well as all associated regional activities including inspection of livestock prior to export and issuing of export certification.

In the current environment the status quo presents uncertainty to the sustainability of Australia's livestock export trade. This uncertainty has presented costs to producers, industry and ancillary service industries, for example in reductions in property values, constraints on cash flow and increased margins from banks because of the increased risk in the industry. These costs are presented in more detail in the case study below on Indonesia.

Community/Government

The Australian Government has implemented two assistance packages in 2011 (with a third under development) to support businesses impacted by the suspension of trade to Indonesia. The Department of Human Services helped to develop and subsequently delivered the Income Recovery Subsidy and the Business Assistance Packages. The Income Recovery Subsidy was allocated up to \$3 million and the Business Assistance package was allocated up to \$30 million.

Should the uncertainty to the livestock export trade continue, this could result in continued government assistance direct to the industry. While there has not been an issue to date, any further assistance for businesses dependent on the livestock export industry would need to take into consideration Australia's World Trade Organisation responsibilities and the limits that are placed on the amount and type of assistance.

If the standard of animal welfare with our international trading partners is compromised and detected, the Australian Government could consider providing further assistance to other countries in meeting the OIE requirements.

The value to the Australian public of non-market outcomes in foreign markets, such as the welfare of Australian and non-Australian livestock, food security for foreign nations and accessibility of foreign populations to protein has not been quantified. However, based on the public response to recent footage of mistreatment of Australian livestock in foreign markets, it is considered that the Australian public would suffer distress from knowledge of poor treatment of Australian animals and will not support the continuation of the trade without these conditions being addressed.

International trading partners

Many countries which have been consulted during visits by senior Australian Government officials, have indicated broad support for efforts to improve animal welfare. However, some have raised sensitivities about any new requirements that impact on their domestic industries and that may influence the way in which they are perceived by other members of the international community.

Nonetheless, trading partners remain vulnerable to disruption including through action by the government to restrict trade in response to animal welfare incidents in export markets or direct disruption of shipment loading in Australia by animal welfare activists. However, it is likely that importing countries would attempt to source livestock from competing markets rather than substantially alter the demand for beef, veal or sheep meat. As noted previously, such uncertainty undermines the long term sustainability of the industry.

Case Study - Kuwait

Australia merchandise exports to Kuwait in 2010 were worth \$507 million, with live animal shipments worth \$113 million, our largest live sheep market in the Gulf. The Kuwait Livestock Transport and Trading Company (KLTT) imported one million Australian sheep into Kuwait last year, and transhipped a further one million Australian sheep into other Gulf markets.

KLTT plays a critical role in the supply of sheep to the wider region and owns major livestock handling facilities in Kuwait, Australia and other Gulf countries. A ban or suspension of live sheep exports to Kuwait would have negative impacts on our bilateral relationship as it could temporarily threaten food security and have economic, social and political ramifications in Kuwait. For a suspension to be effective in restricting the flow of Australian sheep it may need to cover other countries in the Middle East, through which sheep could be transhipped. These could include Saudi Arabia and Jordan.

Depending on Kuwait's response, other major agricultural exports from Australia of wheat (\$74 million) and meat (\$35 million) may also be affected. In either case, there would be food security implications for Kuwaiti consumers, with decreased food supplies likely to drive up prices. Impacts would also extend to those employed in the receiving and transport slaughter of Australian live sheep.

Since Kuwait is a member of the Gulf Cooperation Council (GCC), we could expect other GCC members (Bahrain, Oman, Qatar, Saudi Arabia and the UAE) to view Australia's actions unfavourably, including as a threat to GCC food security as a

whole. It could also have broader implications for Australia's foreign and strategic relations with the GCC, particularly if the trigger was perceived to be a judgement on cultural and religious practices with relation to slaughter of sheep. This would undermine Australia's efforts to broaden and expand our relations with the GCC, an increasingly important economic and strategic partner for Australia.

4.2.6 Benefits

Public benefits

This option provides assurance only that Australian livestock exported to Egypt and Indonesia will be handled in a manner consistent with international requirements.

The value to the Australian public of animal welfare outcomes in foreign markets has not been evaluated. Based on the public response to recent footage of mistreatment of Australian livestock in foreign markets, it is considered that there would have been benefit to public welfare attached to the recent changes to regulation surrounding the export of live cattle to Indonesia. However, this benefit only relates to the animal welfare outcomes in Indonesia and does not extend to the potential benefits to public welfare of addressing animal welfare concerns in other markets.

Private benefits

The industry can continue to trade and source an income from the trade. However, it remains vulnerable to disruption including through action by the government to restrict trade in response to animal welfare incidents in export markets or direct disruption of shipment loading in Australia by animal welfare activists. As noted previously, such uncertainty undermines the long term sustainability of the industry.

4.2.7 Summary of impacts of Option One

The continuation of the status quo is likely to result in continual improvement to animal welfare through changes driven by industry and the Australian Government in cooperation with other governments and overseas industries. The pace of change is uncertain, as in turn are the likely animal welfare outcomes. While this option is likely to deliver a net benefit, the uncertainty over outcomes from failing to assure animal welfare outcomes to the level expected by the community may have negative flow on impact to investment in the industry and lead to the closure of all or some markets by the Government.

4.3 *Option 2 – Permanently ban all livestock exports now or phased out in the future. The Australian Government continues to encourage OIE members to adopt and implement OIE animal welfare guidelines.*

This option considers a ban on all livestock exports at a point in time or phase out of livestock exports over a period of time. The Government has previously taken this type of action in specific markets with the suspension of cattle exports to Egypt in 2006 and the export of feeder/slaughter livestock to Indonesia in 2011. In both markets, trade was resumed with the implementation of a new regulatory framework to support supply chain assurance.

This option would address the animal welfare issues associated with the export of Australian livestock for feeder and slaughter purposes. However, the cessation of trade could have negative animal welfare implications for animals held on properties which are destined for the export market and would have significant impacts on a range of individual, businesses and communities in the supply chain such as farmers/producers, exporters, transporters, ancillary businesses, international feedlots and abattoirs and consumers as seen from previous suspensions in trade (either as a direct result of Government intervention or otherwise).

If the closures to the trade were permanent this option would not achieve the Australian Government’s objective of maintaining a sustainable livestock export trade.

4.3.1 Costs

Economy

At the economy-wide or ‘macro’ level, the loss of trade closes access to international markets and would have a net negative effect on Australia’s economy.

Various studies have attempted to quantify regional-, state- or Australia-wide economic impacts of cessations (full or partial) of livestock exports. Results are summarised below:

Existing studies of short-term impacts of cessation of live export trade

Paper	Timeframe	industry	Region	Gross value of regional production	Employment (FTE)
MLA (2007)	1 year after complete cessation	cattle	Northern WA	-\$109m	-388
		cattle	NT	-\$126m	-538
		cattle	Qld	-\$215m	-221
		sheep	Southern WA	-\$449m	-3614
		cattle	Southern WA	-\$61m	-392
DAFWA (August 2011)	1st year after 10% cessation ^a	sheep	WA	-0.014%	-0.006%
	1 year after 20% cessation	sheep	WA	-0.028%	-0.013%
	1st year after 30% cessation	sheep	WA	-0.041%	-0.019%
DAFWA (July 2011)	1st year after complete cessation	cattle	WA	-\$140m ^c	

CIE (2011)	Average annual impact 2005-06 to 2008-09 ^b	sheep	Australia	-5.9%	
		cattle	Australia	-1.5%	
CIE (2011)	2005-06 to 2008-09	Red meat industry	Australia	-2.3% (\$209m)	

^a cessation measured as per cent of average volume of live sheep exports

^b CIE estimated the annual contribution of live animal exports each year using historical data for the period 2005-06 to 2008-09. This can be viewed as a one-year cessation in livestock exports, evaluated in each of the years of the period examined.

^c DAFWA report estimates net value added, not gross value of production

Because the livestock export industry is concentrated, the impact of a cessation of exports to a particular market is felt most acutely in particular regions. There is a risk of adverse regional impacts as a result of changes to export conditions and volumes for the cattle industry. This was seen most recently with the suspension of trade to Indonesia, which has a significant effect on producers, ancillary services and communities in northern Australia.

The Centre for International Economics (CIE) undertook a study on the contribution of the Australian livestock export industry. It found that if future cessations of the trade were to occur in different markets severe dislocation would be created in some regions in the wake of a cessation of trade. The aggregate impacts would be significant at a regional level and cause economic hardship for many rural families and businesses directly dependent on the livestock export trade. The pain would be particularly acute for those many producers with high levels of debt and already working with tight margins. There would be significant regional economic effects, particularly on the cattle industry of western and northern Australia and the sheep in industry of Western Australia. The report noted these impacts would likely be sustained, given the lack of alternatives at the farm level, particularly for those reliant on the livestock trade such as cattle producers in Northern Australia and sheep producers in Western Australia.

The immediate adverse impact of a cessation of livestock exports would be evident in a sudden fall in prices as producers and processors adjusted to the additional supplies available for domestic slaughter. The potential increased supply is significant given the livestock exports accounted for 10 per cent of the annual national turnoff of sheep and 9 per cent of the annual turnoff of cattle.⁷

Previous disruptions to livestock exports from Australia provide some indication of the potential costs of partial or complete closure of markets. For example, in Western Australia the closure of the Saudi Arabian market for live sheep in 2003 caused an estimated immediate 50 per cent reduction of average wether (non-breeding male adult sheep) prices in Western Australia⁸.

⁷ Source: ABS Slaughter: Livestock products, Cat. no. 7215.0 and Exports: International Trade, Australia, Cat. no. 5465.0

⁸ Keniry Review, 2003, p.15.

Individual/businesses

There would be significant costs to exporters, producers and ancillary service industries through the loss of income from the cessation of the trade. In addition to foregone income, there are likely to be significant costs incurred in finding alternative markets for animals previously intended for livestock export. The limited availability of profitable alternative markets for cattle in northern Australia was a key reason for the significant impact that the suspension of trade to Indonesia had on producers and support industries in the region.

Although it is difficult to provide a dollar figure on costs to individuals and businesses of a complete ban, it is important to note that the majority of producers are subject to a leasehold agreement (rather than freehold) and to meet the conditions of the lease have few options to diversify. A total and permanent ban would therefore likely completely change whole communities.

Data from the Australian Bureau of Statistics (ABS) indicates that livestock exports accounted for 10 per cent of total Australian sheep and lamb turnoff and 9 per cent of total Australian cattle turnoff. Regional data is not available for all livestock export regions, however a report by the Department of Agriculture and Food Western Australia (DAFWA, July 2011) estimates that livestock exports account for 41 per cent and 37 per cent of total WA turnoff for sheep and cattle, respectively. Cessation of livestock exports would thus require considerable diversion of sheep and cattle through alternative supply chains, including feedlots, domestic and export abattoirs, interstate transfer or retaining on farm (particularly important for sheep, as animals could be diverted for wool production). Any such diversions are likely to incur significant operational costs.

Revenue from the export of livestock at the farm level is significant for those sheep and cattle producers involved in the livestock export trade.

For farms involved in the live sheep export trade, their average per farm receipts from sheep and lambs sold for live export were \$40 000 per year, averaged over the three years 2007-08 to 2009-10. The majority of farms selling sheep or lambs for live export are mixed enterprise farms combining sheep, lamb and wool enterprises with grain growing and beef cattle. For farms selling sheep or lambs for live export, livestock export sales accounted for 7 per cent of average total cash receipts in the three years to 2009-10. However, livestock export sales were 40 per cent of their total receipts from sheep and lamb sales.

For farms involved in the live cattle export trade, their farm receipts from cattle sold to live export were \$348 000 per farm per year, averaged over the same three year period to 2009-10. This is equivalent to two-thirds of their total annual beef cattle sales of \$531 000 per farm and 38 per cent of their total cash receipts per farm.

An estimated population of around 3200 farms are involved in the live sheep trade, or around 11 per cent of all farms in Australia with more than 100 sheep. The percentage of farms selling sheep or lambs for live export during this period was highest in Western Australia at 43 per cent or 2160 farms. In Victoria, 10 per cent of farms (660 farms) sold sheep or lambs for live export, 5 per cent in South Australia and 1 per cent each in New South Wales and in Tasmania.

An estimated population of 700 farms are involved in the live cattle trade in Australia, with by far the largest proportion of live cattle exports for slaughter purposes (over 90 per cent) sourced from the northern Australian live cattle export region – consisting of the Kimberley, Pilbara and Gascoyne regions in northern Western Australia; the Northern Territory; and northern regions of Queensland. An ABARES survey of beef cattle producers in the northern live cattle export regions, conducted in June and July 2011, found there were an estimated 1459 farm businesses with more than 100 beef cattle as at 30 June 2011 in northern Australia and an estimated 660 of these intended to export live cattle in 2011. Around 300 of these farm businesses intended to sell more than 50 per cent of the total cattle turn-off for 2011 for livestock export. Live beef cattle exports also make a significant contribution to total cash receipts for farms in south east Western Australia.

The northern Australian live cattle industry, particularly in Western Australia and the Northern Territory, has undergone significant structural adjustment to target the livestock export market and has geared production systems towards being breeding enterprises supplying young cattle to south east Asian markets for fattening before slaughter. At the same time there has also been a reduction in the number of accredited abattoirs in the region as slaughter cattle were diverted away from the beef trade. Only a small number of domestic abattoirs remain in northern Australia and there are no accredited export abattoirs in the Northern Territory or northern Western Australia.

Other industries

The average annual value of livestock exports is around \$1 billion in free on board (fob) terms. Not all this revenue flows back to exporters and livestock producers because of the costs involved in acquisition, preparation and transportation of these animals. A study by the Centre for International Economics (CIE) on the contribution of the Australian livestock export industry, released in June 2011 identified the major cost components of the total export value for each of the major classes of livestock exported. On average, 74 per cent of the export fob value was accounted for by the purchase cost of livestock from producers with the total value of these livestock purchases (equivalent to farm level GVP) estimated at around \$742 million each year (based on the three years to 2008-09). The remaining 26 per cent of the export revenue is spread across a range of industries that provide services to the livestock export industry including road transport providers, fodder supply companies, livestock agents, exporting companies and port service providers.

MLA (2007) estimated the average dependence of participants in the livestock exports industry on the trade, as well as ancillary service providers. Service providers with a higher level of reliance on the livestock export trade are likely to be the most significantly impacted by the closure of the trade. Results are provided below:

<i>Value chain participant/ancillary service provider</i>	<i>Turnover earned from livestock export (%)</i>
Exporters	>80%
Assembly depot operators	>80
Marine consultants	>80
Ship owners	>80
Ship agents	>80

On-vessel stockmen	>80
Road transport providers	50 – 80
Livestock agents	50 – 80
Veterinary service providers	50 – 80
Port authorities	50 – 80
Stevedores	50 – 80
Rural contractors – mustering, fencing, etc	10 – 50
Rural consultants and trainers	10 – 50
Fodder growers and manufacturers	10 – 50
Industry associations	10 – 50
Providores	10 – 50
Regional businesses	<10
Government service providers	<10
Rural finance, auditing, insurance and legal service providers	<10

Community/Government

Cessation of livestock exports may have flow-on effects beyond the livestock export industry to the regional economy. Communities which are more reliant on the livestock export trade, such as those in the northern live cattle export region, will experience higher costs than communities that are less reliant. The loss of employment and income can lead to other impacts for individuals and communities. This will present a cost to communities in reduced community participation and loss of community activity.

There could be costs to the Australian, State and local governments to support individuals in the industry to transition from the trade. In the past, the Australian Government has provided structural adjustment assistance for industries such as dairy and sugar, business assistance grants and income subsidies. These types of measures may be required for the medium term to support individuals and business to transition from the industry. The Australian Government may also consider other non-payment services to support individuals and businesses in a transition, at a cost to government. A recent example of this is the Rural Financial Counselling Service to assist Northern Territory cattle farmers in response to the suspension of the feeder/slaughter livestock trade to Indonesia.

A sudden cessation of the livestock export trade will likely see the stranding of approximately half a million cattle in northern Australia with limited alternatives for their marketing. This may result in the destruction of a large number of these on property or the retention of these animals on property to the detriment of the land.

It is believed that the Australian public would derive considerable benefit from the assurance that Australian livestock were not being exposed to the risk of mistreatment in overseas markets. However, given that importing countries are likely to attempt to increase imports of livestock from alternative suppliers, there may be a cost to the Australian public associated with the loss of Australian presence and efforts to improve animal welfare standards in foreign markets, or with the increased incidence of non-Australian livestock exposure to potential mistreatment in these markets.

In addition, ceasing exports to our closest neighbours is likely to cause these countries to source livestock imports from other countries that have an inferior biosecurity health status to Australia. This would increase the biosecurity risk to Australia by exposing Australia to potentially devastating diseases such as FMD.

International trading partners

The cessation of livestock exports to foreign markets would have a significant impact on the domestic markets of importing countries. In the case of Indonesia, the export of Australian cattle represents a significant portion of the protein food supply for the country. Ceasing the trade would impact Indonesia's ability to retain food security, which would have health implications and broader social issues which relate to poor food supply (e.g. social unrest). However, it is likely that importing countries would source livestock from competing markets rather than substantially alter the demand for beef, veal or sheep meat.

Australia's trading relationships with foreign countries may also be undermined with concerns about our long term reliability as a supplier of commodities and food.

Summary of costs of Option 2

In comparison to option 1, significant financial and economic costs associated with the sudden cessation of trade would accrue to Australian livestock export industry and ancillary industries at the time of the ban. Significant costs would also be borne by these industries in seeking out and developing alternative markets or alternative land use. There is the potential cost to the Commonwealth, state and territory governments of providing assistance to individuals currently in the livestock export industry. International markets would bear costs associated with seeking out new sources of livestock. The animal welfare outcomes for alternatively sourced livestock could not be assured to meet OIE international standards, so banning Australian exports is unlikely to improve the overall animal welfare outcome in the importing country but assure that Australian sourced animals are not being mistreated.

4.3.2 Benefits

Public benefits

The option would provide benefits for Australian livestock by ensuring they do not pass through foreign supply chains that undertake practices that do not meet OIE requirements. The cessation of livestock exports would mean Australian animals are no longer subject to the stresses of long distance air or sea transport, or of potential poor handling and/or treatment in receiving countries. However, increasing numbers of animals could be expected to be subjected to long distance land transport in Australia as animals were transported from north to south for processing. An abruptly implemented halt to the trade would have implications for animals held on properties now that are destined for the export market, as reduced incomes for pastoralists could mean required nutrient supplements were not provided or animal health regimes halted.

To date there have been no attempts to quantify the value to the Australian public of the various non-market goods existing in the livestock export trade. However, an extensive literature exists which aims to quantify existence and use values of other

non-market goods. This term ‘existence value’ refers to value that individuals place on things that is separate from the value individuals obtain from the physical use (termed ‘use value’) of these things. This can include components such as ‘stewardship value’ – satisfaction in having “looked after” or managed a resource in a responsible way, or ‘altruistic benefits’ – the satisfaction arising from the knowledge of providing benefits to others. Such studies show that benefits to the general public of non-market goods can be significant. For example, Bennett and Blaney (2003) applied the contingent valuation method to evaluate public benefits of legislation to phase out battery cages in the egg-production industry of the United Kingdom. Their results suggest that the estimated benefits over a 12-year period outweigh the cost of the legislation.

Public valuations of other non-market goods, such as public concern for the welfare of producers affected by the changes, potential increased exposure of non-Australian livestock to mistreatment and decreased food security for former trading partners would also need to be considered in a quantitative evaluation of public benefits of ceasing the trade.

Private benefits

Private benefits in the short- to medium-term may accrue to meat processors, exporters and retailers and some ancillary service industries. Depending on whether cessation of livestock exports induces producers to shift out of livestock altogether, long-term benefits may also accrue to cropping industries or other alternative industries.

Several studies have attempted to quantify the economy-wide effects of a cessation of livestock exports. While these studies generally have indicated an overall loss to the economy, the gains identified for specific sectors were as below:

- CIE (June 2011) estimated that the total average impact of a cessation of live sheep and cattle exports over the period 2005-06 to 2008-09 on the gross value of production of the meat processing industry at +\$70million for cattle processors, and +\$38 million for sheep processors.
- DAFWA (July 2011) estimated net benefit to the Western Australian cattle wholesale/processing industry would be +\$20.1 million in industry value added terms.

ACIL Tasman

ACIL Tasman released two reports in 2009, one commissioned by the RSPCA (ACIL Tasman, 2009a), and the other commissioned by the World Society for the Protection of Animals (ACIL Tasman, 2009b).

ACIL Tasman (2009a) aims to evaluate ‘the whole of flock changes that would result from a cessation of the live export trade’ in Western Australia. It claims to employ “an unconventional, yet very comprehensive, method for valuing the live export trade for sheep enterprise managers in WA”. The study found that while in response to a cessation of the live animal trade adjustments would be required by WA sheep producers; they do not appear to be extensive compared to other structural adjustments already underway in the industry. The adjustment costs are about 3-4 per

cent of the investment value of a ewe or wether, where increasing merino and cross bred prime lamb production is possible. Where switching to selling merino wethers earlier for slaughter or switching to prime lamb production is not available, the cost could be as high as 13 per cent of the value of a wether.

The report claims that the cost of adjustment to a market where the live sheep trade is not available could be minimised by progressively phasing-out of live sheep exports. By phasing out the live sheep trade over a period of five years, the impact on the Australian economy would be a loss of \$200 million.

ACIL Tasman (2009b) aims ‘to analyse the economics and policy settings of the live sheep export trade from Western Australia and sheep meat trade, from both national and regional perspectives.’ The report found that the continued existence of the live sheep trade is largely the result of externalities (both positive and negative) present in the sheep industry. The report considers that, were these externalities internalised, sheep producers would be likely to reduce live sheep exports.

It suggests that the option of live sheep exports may be ‘a sub-optimal investment decision from the viewpoint of the wider society’. Production decisions of Western Australian farmers have historically been influenced by various market distortions such as subsidies paid on the slaughter of live sheep in the Middle East, indirect support of the live sheep trade by Middle Eastern countries, and regulation in the Western Australian lamb processing market.

The report also claims that ‘Cessation of the live sheep trade could benefit the Australian economy – through an increase in the level of substitution between Australian live sheep and Australian processed sheep meat in the major importing countries. An increase in substitution would prevent importing countries seeking live imports from elsewhere and ensure that full value adding opportunities can be captured by the WA economy.’

In comparison to the CIE study, the ACIL Tasman study does not take full account of the likely price impacts from a cessation of the trade. These were found to be significant by the CIE and would indicate a substantial under-estimate of the impact by ACIL Tasman.

Summary of benefits

Option 2 would resolve the animal welfare issues identified in the problem section as they relate to Australian animals in foreign supply chains. From a global perspective animal welfare outcomes are likely to be unchanged. It may also provide increased business to meat processors within Australia, exporters, retailers and some ancillary service industries, but these benefits would accrue in the short to medium term only.

4.3.3 Summary of impacts of option two

In comparison to the status quo, there are significant direct and indirect (flow-on) costs associated with this option. This option would resolve the welfare issues for Australian livestock in foreign supply chains as identified in the problem section. However, implementing this option could also lead to negative implications for animal welfare globally which would be of concern to the general community. The

objective of sustaining a livestock export trade would not be attained under this option.

4.4 Option 3 – Implement a new regulatory framework for all markets and livestock species that require all livestock exports (feeder and slaughter animals) to comply with World Organisation for Animal Health (OIE) guidance for animal welfare and provide assurance that those animals remain within approved supply chain. The Australian Government continue to encourage OIE members to adopt and implement OIE animal welfare standards.

This option seeks to ensure the long term viability of Australia’s livestock export trade through regulation of livestock exporters, in order to achieve appropriate animal welfare protections for Australian livestock, through to the point of slaughter in importing countries. This builds on the regulatory framework implemented for the export of feeder/slaughter livestock to Indonesia by adapting it to all livestock species and all markets.

The Farmer Review recommended that the approach developed for the export of feeder and slaughter livestock to Indonesia should be developed for all supply chains (that is, all markets and all species of feeder and slaughter livestock), with variations which might be necessary to take account of different species or market circumstances. The minimum requirements should be that all elements of the supply chain must meet, at a minimum, the OIE requirements; that animals entering a supply chain must be accounted for; that there be independent third party assessment of each supply chain; and that the exporter demonstrate whole of supply chain control, enabling accounting for animals and ensuring treatment according to OIE requirements.

As Australia cannot regulate entities in other sovereign nations it is important that any new regulatory requirements are applied to Australian exporters. As such, the proposed regulatory approach would be applied to exporters through the Australian Government’s powers to regulate exports under the *Export Control Act 1982* (the Export Control Act) and the *Australian Meat and Live-stock Industry Act 1997* (the AMLI Act).

Changes to the legislation would be made which require an exporter to ensure:

- i. that animals are handled and processed in accordance with the internationally accepted requirements for animal welfare established in the World Organisation for Animal Health (OIE), right through to the point of slaughter;
- ii. control of their supply chain;
- iii. the animals can be tracked or accounted for along the supply chain; and
- iv. the supply chain is subject to an independent audit to evaluate if it complies with the animal welfare, control and traceability requirements.

This option seeks to ensure that all Australian livestock exported for feeding and slaughter purposes are processed in supply chains that provide confidence that they will be handled and slaughtered in a manner consistent with the OIE requirements – as identified in the first principle above. This includes issues of livestock being removed from supply chains for sales to individuals, farmers or small abattoirs by requiring assurance from exporters that livestock do not leave approved supply chains. The other three principles are directed at assurance that animals remain within the supply chain and that there is appropriate accountability and transparency around the process.

4.4.1 Exporter Requirements

The requirements for exporters in relation to markets other than Indonesia would change. At the Notice of Intention (NOI) to export stage, the exporters will be required to specify the supply chain to which they will be supplying animals and provide evidence of control, traceability or accountability and assurance of the adequacy of the animal welfare arrangements.

For the control aspects, the exporter will be required to demonstrate they have control throughout the supply chain to enable traceability/accountability of animals, welfare standards, and that reporting and auditing can be successfully managed. To do so, the exporter must provide sufficiently detailed documentation that demonstrates/confirms the commercial arrangements underpinning the control. This may include full ownership of the supply chain by the exporter or could be achieved through commercial contracts with importers and other entities within the nominated supply chain.

Traceability or accountability of animals will require the exporter to provide evidence through their own supply chain assurance system that animals can be identified at each point, from the Australian registered premises through to the point of slaughter in the importing country.

For animal welfare aspects, the exporter will be required to demonstrate that livestock are treated according to internationally-accepted OIE requirements right through to the point of slaughter. To help exporters with their responsibilities, and to assist independent auditors in the assessment of this aspect, the government in conjunction with industry have developed an ‘animal welfare checklist’ based on the OIE animal welfare guidelines.

The Government will require the controlled supply chain to be audited by an independent third party auditor. The audit is to assess if the supply chain meets the DAFF animal welfare checklist and that appropriate control and traceability of animals exists.

The licensed exporter will be required to provide an initial independent audit report for a new supply chain as part of the NOI application process. The initial audit must cover the control, traceability and animal welfare aspects.

In the case of slaughter/feeder cattle and buffalo exports, an additional independent audit report which will subsequently assess the performance of the supply chain is required for the first five consignments exported into the exporter’s supply chain.

Following the receipt of five “performance” independent audit reports, the frequency of ongoing independent audits for a specific supply chain will be determined by the department on a risk/performance basis.

In the case of feeder/slaughter sheep and goat exports, a similar the system of independent auditing is proposed. The licensed exporter will be required to provide initial independent audit report outcomes for a new supply chain as part of the NOI application process that covers the control, traceability/accountability and animal welfare aspects. It is proposed that subsequent independent audits to assess the performance of the supply chains will be required every two months for the first six months of a new supply chain, and then at a frequency determined by risk/performance but involving a minimum of three audits per year, with two of these to occur at periods of highest risk during the festival periods (where relevant). Audit outcomes will be provided to Government and the outcomes made publicly available taking into consideration public interest, foreign sensitivities and any legitimate commercial issues.

Evidence that demonstrates a failure to comply with the proposed regulation could result in a range of sanctions against the exporter including, but not limited to, failure to receive approval for future consignments or an exporter losing their license.

4.4.2 Implementation

A rapid implementation of a new regulatory framework could be disruptive to international trade and result in significant negative impacts on the Australian farm sector and related industries. Given the time needed to introduce a regulatory framework to deliver concrete improvements on animal welfare in all markets, which is sensitive to importing country needs and cultural events, phased implementation seems most appropriate. Any phased implementation should be supported by awareness raising activities with importing countries.

The timing of implementation should take account of what is reasonably possible to expect in applying a substantial new approach to the livestock trade. The new approach will be unfamiliar to Australia’s trading partners and apply across a large number of markets and across different species of animals. Many of the exporters are supplying to multiple markets and will need a reasonable timeframe to put in place arrangements in each of those markets, including ensuring supply chains meet the OIE requirements. Implementation dates should also be sensitive to importing country needs and cultural events such as the Eid festivals.

It is possible that the proposed framework can be implemented in a way which minimises the disruption to established livestock markets while achieving the key principles being sought by the Australian Government. The following options could be considered to implement the proposed regulatory framework:

- **Phased implementation by market:** This approach could include a three tranche implementation that would deliver the supply chain assurance framework to 75 per cent of Australian exports by the end of February 2012, 99 per cent by the end of August 2012 and the remainder by the end of December 2012. The timeline for introduction would reflect the high priority placed on rapidly demonstrating

acceptable animal welfare outcomes by the Australian Government. By targeting several markets that make up the bulk of trade, the resources necessary to implement the framework (industry, exporters, and government including overseas posts, AQIS) can be managed.

- Single implementation date. This option provides the assurance to the Government that animal welfare of Australian animals in imported markets will be of an acceptable standard from a given date. While implementation at a set date of all livestock exports to all markets would be received positively by animal welfare groups and sectors of the general public, such an approach could be disruptive to international trade and result in significant negative impacts on the Australian farm sector and related industries. The number of markets and varying levels of complexity in supply chains hinders the ability of industry or government from focusing on all markets at once. Pursuing this option would result in adverse consequences domestically and internationally, particularly if the date was set close to government making its decision.

4.4.3 Costs

Individual/businesses

It is anticipated that the cost drivers for businesses to comply with the proposed regulatory arrangements would include, but are not limited to:

- Costs associated with the engagement of independent auditors.
- Potential recruitment of additional staff to meet new requirements associated with:
 - Completing a Notice of Intention (NOI) to export.
 - Development of an Exporter Supply Chain Assurance System (ESCAS).
 - Negotiation and implementation of contracts with importers ensure control and traceability within the supply chain.
 - Additional reporting requirements to the department.
- All related costs that come with the employment of additional staff.
- Capital equipment expenditure associated with providing infrastructure in the importing country to align facilities with the required standards.
- Costs associated with the training of staff in importing country facilities to ensure compliance with the required standards.
- Increased costs associated with DAFF assessments of the NOI and ESCAS.

Normal DAFF fees and charges as outlined in the *Export Control (Fees) Orders 2001* will apply to exporters when receiving services provided by the department. These include activities such as export licensing, assessment and approval of a livestock registered premises, assessment and approval of a NOI to export as well as all

associated regional activities including inspection of livestock prior to export and issuing of export certification. During implementation, a review of the cost recovery fee structure under associated legislation will be undertaken to identify any changes to fees required as a result of activities arising under the new regulatory framework. Any subsequent fee changes will be the subject of a cost recovery impact statement and related approval processes.

Implementation in Indonesia has been used as an indicator of likely costs in other markets. LiveCorp has estimated that the establishment cost of new supply chains could be \$0.5 million per exporter on average. At least some of this would be a one-off cost.

While it is still early days, initial estimates by exporters of the additional on-going costs of the new regulatory framework to Indonesia equate to around \$2.00/head for cattle (of an average export unit value of live cattle exported to Indonesia in 2010 of around \$610/head).

Additional costs mainly relate to the following areas:

- Establishing the supply chain including compliance, reporting and contracts.
- Arrangements for pre-export tagging
- Additional staffing to ensure compliance in the supply chains
- Engaging additional expertise to assist importers comply with the new system.

There may be some economies across markets as exporters develop experience in implementing the new arrangements. Given that Australian exporters dominate the supply of live cattle to Indonesia it is likely that a significant portion of the costs of the new regulatory framework would be passed forward to importers and consumers in Indonesia. This is evidenced by the significant impact on Indonesian prices (around 20 per cent increase in beef prices between early June and mid July 2011) following the suspension of the live cattle trade from Australia.

The degree to which costs for other markets could be passed forward would depend on the dominance of Australian sales to that market and the scope for substitution with animals from other countries or with meat imports. This will vary by market, with Australia often a dominant supplier for both sheep and cattle.

Importers are expected to face a similar increase in costs to those experienced by exporters for managing their elements of the supply chain from unloading through to slaughter.

Study by the Department of Agriculture and Food Western Australia

In 2011, the Department of Agriculture and Food Western Australia (DAFWA) conducted a scenario analysis⁹ of likely impacts on the Western Australian live sheep export industry of implementing a new regulatory framework for all markets and livestock species that practices meet World Organisation for Animal Health (OIE) standards for animal welfare. It assumed changes to regulation would occur in 2011-12, and attempted to quantify likely changes in trade flows of live sheep exports in that year.

Overall this study suggests that macroeconomic impacts of greater regulation of live sheep exports, to Australian standards based on OIE guidelines, are not large. For example, results from DAFWA modelling indicate that the effect of a 10 per cent to 50 per cent reduction in live sheep exports from Western Australia would result in a less than one per cent decrease for Western Australia as a whole in such variables as aggregate employment, farm gate sheep prices and the value of gross value of sheep industry production.

There are, however, likely to be larger regional economy effects in the sheep growing areas of WA, and some farm and other businesses in the sheep export supply chains initially will be adversely affected.

International trading partners

The Australian Government would be applying any new regulatory framework only to Australian exporters. However, the new arrangements will clearly have an effect on supply chains in other countries. While there is no need for foreign governments to change their regulations, nor to do anything to facilitate the changed arrangements, it remains crucial for the Australian Government to work with overseas governments to raise awareness of what the Australian Government is pursuing and to seek their in-principle support. This is particularly important in those markets that are either key markets for Australian exports or depend on Australian imports for food security.

In all countries visited by the Farmer Review, governments supported the application of OIE requirements and some interlocutors spoke of a wish to work for improvements relating to the welfare of Australian and other animals. There was sensitivity in some countries about any suggestion that Australia might be seeking to mandate its own standards overseas, but a ready understanding that Australia would look to ensure, via commercial arrangements, welfare of Australian animals in accordance with the OIE requirements.

The Industry Government Working Group(cattle) noted that in order to achieve acceptable animal welfare outcomes improvements in supply chains could be accelerated by providing technical assistance and through capacity building projects for markets in the initial set up period. Any assistance provided should be considered on a case-by-case basis taking into account the size of the market, complexities associated with the supply chains, and economic status of the country to afford improvements. Consideration should be given to the appropriate role for the Australian Government and industry in these activities.

⁹ The Economic Importance to Western Australia of Live Sheep Exports, August 2011.

Government Costs

The cost drivers and impacts for government to develop, implement and manage the proposed regulatory arrangements will be captured and reported fully in the proposed Cost Recovery Impact Statement and will include, but are not limited to:

- Recruitment of additional staff to:
 - Assess and provide a recommendation to the delegate on the suitability of an Exporter Supply Chain Assurance System (ESCAS).
 - Review information contained in all independent audit reports received by the department and manage corrective actions as part of the compliance and sanctions policy.
 - Respond to enquiries from the general public, animal welfare groups, industry and members of parliament.
 - Undertake regular and ongoing publishing of relevant information on the department's website.
 - Report from various sources of information both internally and externally.
 - Develop new regulations and guidelines.
 - Develop internal instructional and training material.
- Additional accommodation may be required to house new staff.
- Development/integration of an IT solution to manage, track and report on all information stored in relation to the ESCAS and other information reported by exporters.
- Analysis of existing cost recovery arrangements and development and implementation of revised fee structure if appropriate.

Summary of Costs

Costs will primarily be borne by Australian exporters in terms of increased compliance with the assurance requirements and the auditing arrangements some of which may be passed forward to importers and consumers in other countries. It is possible some minor export markets may no longer be cost effective to supply to (or in the same quantity as previously supplied) under this higher regulatory standard – providing another direct cost to Australian industry. However, the likelihood of this occurring would be reduced as a result of the Australian Government engaging importing countries on the development of the new regulatory arrangements, the proposed phased implementation approach and any assistance the Government chose to provide to build industry and importing country capacity.

Costs will be incurred by the Australian Government in implementing the new regulatory measures. The Australian Government and industry will continue to incur costs associated with capacity building to assist importing countries to adopt and implement OIE animal welfare requirements. Where assurance cannot be provided that Australian livestock are processed through foreign supply chains that meet OIE requirements, Australian exporters will not be able to export to these supply chains.

4.4.4 Benefits

Public benefits

The option would provide benefits for Australian livestock by ensuring they do not pass through foreign supply chains that undertake practices that do not meet OIE requirements. The OIE animal welfare requirements provide an international benchmark that is accepted and recognised by OIE member countries. Meeting the requirements is achievable. The requirements cover the whole slaughter process and if followed, substantially reduce welfare compromise in livestock. The Farmer Review also observed some interlocutors spoke of a wish to work for improvements relating to the welfare of Australian and other animals.

As discussed in option two, to date there have been no attempts to quantify the value to the Australian public of the various non-market goods existing in the livestock export trade. However, an extensive literature exists which aims to quantify existence and use values of other non-market goods. Such studies show that benefits to the general public of non-market goods can be significant. The response of the Australian public to recent footage of mistreatment of Australian livestock in overseas markets suggests that significant value is placed on these non-market goods.

Private benefits

Animal welfare safeguards embedded in the new regulatory framework significantly improve the stability of the livestock export trade through reducing exposure to the effects of poor animal welfare outcomes.

This option avoids the costs to industry as outlined in option two. For example, loss of income and impacts on the regional economies as a result of uncertainty and/or loss of market access associated with the cessation of the trade.

This option provides for the continuation of Australia's livestock export trade, which accounted for 2.7 per cent of Australia's agricultural exports in 2010 with the export of 3.8 million feeder or slaughter cattle, sheep and goats valued at \$863 million in that year (Based on ABS data on the DFAT STARS database).

The livestock export trade and associated investments in infrastructure have resulted in a gradual increase in land values in cattle and sheep properties over the past decade. The livestock export trade has also improved regional economies, with higher on-farm returns flowing onto local communities (CIE 2011).

In 2010, Australia exported live cattle to 19 countries, live sheep to 16 countries and live goats to 9 countries (Based on ABS data on the DFAT STARS database). The option recognises the importance of the supply of Australian livestock to international markets as a food and protein source. This takes account of the abilities of our international trading partners to transition all supply chains that receive Australian livestock to deliver humane OIE-consistent animal welfare outcomes.

Summary of benefits

This option provides greater certainty for industry in terms of the sustainability of trade to existing and new markets which can assure OIE animal welfare requirements. The assurance and auditing measures will reduce the risk of adverse animal welfare outcomes. Animal welfare outcomes will be more likely than option one to meet OIE international standards for Australian animals. Where extensive non-compliance is identified, this option provides for the cessation of trade to individual supply chains rather than impacting the whole livestock export trade.

4.4.5 Summary of impacts of option three

In comparison to the status quo, there are additional costs associated with option 3. However, while it is difficult to quantify the benefits, the improved animal welfare outcomes and increased certainty for industry could arguably be equal to or exceed these additional costs, particularly when the most likely alternative option would be closure of some or all markets found to be deficient in animal welfare. Primarily judgments over net benefit are limited to the value that is prescribed to improved animal welfare outcomes.

5. TRADE IMPACT ASSESSMENT

Data from the ABS indicates that the Australian live cattle export industry was worth \$660 million in 2010-11. In 2010-11, Australia exported 731,463 head of cattle for feeder/slaughter purposes, principally to South-East Asia and the Middle East, including Indonesia (457,837 head - 63 per cent), Israel, Turkey, Saudi Arabia, Malaysia, Japan, the Philippines, Jordan and Brunei Darussalam. In 2010-11, Australia exported 2.8 million sheep to markets in the Middle East, valued at \$339 million. Malaysia is Australia's largest market for live goat exports, accounting for 85 per cent of the total volume exported (68,282) in 2010-11. In 2010-11, Australia had exported 68,282 goats, valued at \$9.7 million.

Most live sheep exported for slaughter from Australia (2,912,242 head in 2010-11) are destined for markets in the Middle East, especially in the Arabian Gulf. In 2010-11, Australia exported 2.8 million sheep to markets in the Middle East, valued at \$339 million.

Imports of Australian livestock provide countries with an important contribution to food security through supplementing domestic production or being a major supply source. Australian animals are often preferred due to their disease-free status and superior quality. For example, Australian cattle account for 20 to 30 per cent of Indonesian beef consumption. For markets in the Middle East that Australia supplied in 2009, Australian sheep accounted for 50 per cent of the total 7 million head imported. Australia is also the key supplier of live goats to all its major markets. In 2009, Australia supplied 89 per cent, 99 per cent and 100 per cent of live goat imports, to Malaysia, the Philippines and Singapore, respectively.

As a result, there will be particular sensitivity to any real or perceived threats to the future of the livestock trade from Australia. The implications of such concerns can be considered by taking Kuwait, currently Australia's largest live sheep export market in the Middle East, as an example (refer case study in option one).

While meat trade with many of our livestock export markets has been growing, there remains a strong and important place for the export of livestock. Rising affluence, especially in the Middle East and in parts of South East Asia, will likely see increasing consumption of meat products – with this trade being serviced by both imports of livestock and by boxed meat and by their own domestic industries.

There is a considerable demand for the import of livestock and boxed meat from Australia. This reliance is largely due to Australia's preferable animal disease status in comparison to other import sources, the level of investment in supply chain arrangements for Australian livestock and the insufficient or variable local and regional supply of livestock.

The implementation of the proposed regulatory framework will clearly have an effect on supply chains in other countries. While there is no need for foreign governments to change their regulations, nor to do anything to facilitate the changed arrangements, it remains crucial for the Australian Government to work with overseas governments to raise awareness of what the Australian Government is pursuing and to seek their support. Providing technical assistance through capacity building projects for foreign markets will be important to support the sustainability of the trade.

6. CONSULTATION

6.1 The consultation process

The Government has undertaken significant consultation to inform the development of options to improve animal welfare outcomes in the livestock export trade with industry representatives, animal welfare advocacy organisations, state governments and foreign trading partners. The Australian public were also engaged and regularly informed of Australian Government actions in relation to the livestock export trade.

Through this consultation and engagement the Australian Government has observed widely divergent views on the future of the livestock export trade, significant community concerns about animal welfare and a virtually universal view that practices shown on the television program were unacceptable. Views about the livestock export trade were generally polarised, with industry arguing that it is adequate and animal welfare advocates arguing that it is not.

Animal welfare advocates have presented views of the inherent risks associated with transporting animals over long distances and that the slaughter of animals should occur as close as possible to the point of production in Australia and under Australian conditions. There is also support for a phase out of the livestock trade with animals being exported in the interim having their welfare protected as proposed in the Live Animal Export Restriction and Prohibition Bill 2011.

The general view of industry was that the livestock export industry is highly regulated, with many aspects of world's best practice. Industry considered the regulatory system to be sound, comprehensive and robust, with strong support by industry programs, codes and communication materials to deliver animal welfare outcomes meeting OIE requirements up to disembarkation.

6.1.1 Independent Review into Australia's Livestock Export Trade

On 13 June 2011, the Australian Government appointed Mr Bill Farmer AO to conduct an Independent Review into Australia's Livestock Export Trade. The terms of reference for the review were to review and examine the entire livestock export supply chain. The Farmer Review received over 500 submissions from a range of individuals, organisations and governments in Australia and overseas.

The Farmer Review observed in Australia widely divergent views on the future of the livestock export trade, significant community concerns about animal welfare and a virtually universal view that practices shown on the television program were unacceptable. There were many comments that the livestock export trade should be banned. It also observed a widespread acceptance in the cattle industry that the environment has changed dramatically and that the industry will need to adapt quickly.

The Farmer Review submitted his report to the Australian Government on 31 August 2011. The findings and recommendations of the Farmer Review report have been used to inform the development and implementation of the proposed regulatory framework. The Australian Government has provided in-principle support for all the recommendations from the review.

6.1.2 Industry Government Working Groups

The Government established two industry-government working groups - an Industry Government Working Group on Live Cattle Exports (IGWG cattle) on 10 June 2011 and an Industry Government Working Group on Live Sheep and Goat Exports (IGWG sheep and goats) on 13 July 2011. The IGWGs included representatives from the Australian and state and territory governments and industry body representatives.

The role of the IGWG (cattle) was to focus on operational issues that needed to be addressed to establish the safeguards that the government required to be implemented before trade to Indonesia could be resumed. The IGWG (cattle) was to also consider actions that could be taken to maintain and build a positive relationship with the Indonesian Government and industry and consider the domestic and broader international industry issues arising from the temporary suspension of trade to Indonesia.

The role of the IGWG (sheep and goat) was to develop a supply chain assurance system that meets the four basic principles the Government has developed to reform livestock exports. The IGWG (sheep and goat) was to also report on areas of immediate concern regarding animal welfare for live sheep and goat exports and actions to address them; a process for implementing the proposed supply chain assurance scheme; and any impacts and adjustment responses to the scheme.

In addition, sub-working groups were established for each of the IGWGs to explore specific matters regarding the development of new arrangements:

- Assurance Framework and Welfare Standards
- Domestic Impact Mitigation
- International Engagement.

The IGWG (cattle) found that the Indonesian framework would be appropriate for application across all markets for Australian cattle and buffalo for feeding and slaughter purposes. It therefore proposes that a single regulatory framework be established for all live cattle and buffalo exports to all markets which is based on the framework for Indonesia. The IGWG (cattle) delivered its report to the Australian Government on 26 August 2011.

The IGWG (sheep and goat) delivered its report to the Australian Government on 26 August 2011. The IGWG (sheep and goat) proposed that a new regulatory framework for live sheep and goat exports and a schedule for transition to the new regulatory framework.

6.1.3 Senate inquiry into animal welfare standards in Australia's live export markets

The Australian Government established a Senate inquiry into animal welfare standards in Australia's live export markets (the Inquiry). The terms of reference for the Inquiry were to investigate and report into the role and effectiveness of Government, Meat and Livestock Australia, Livecorp and relevant industry bodies in improving animal welfare standards in Australia's livestock export markets and investigate and report on the domestic economic impact of the livestock export trade within Australia.

The Inquiry has received over 427 public submissions and held a number of public hearings. The Committee has heard a range of views across the livestock exports trade, including from industry body representatives, farmers/producers, animal welfare advocacy organisations, government (the Department of Agriculture, Fisheries and Forestry) and the general public. The report is to be tabled in Parliament.

6.1.4 International Consultation

The Australian Government engaged international trading partners through the Department of Agriculture, Fisheries and Forestry and the Department of Foreign Affairs and Trade. Delegations from DAFF and DFAT have travelled to Malaysia, Brunei, Philippines, Singapore Kuwait, Egypt, Turkey and Jordan. The Government has also been in regular contact with embassies for the countries to which Australia exports livestock. Trading partners were informed of Australia's animal welfare concerns and proposed actions going forward. Governments were receptive and acknowledged the importance of animal welfare standards.

In addition, the Farmer Review also travelled to the following importing countries Bahrain, Egypt, Indonesia, Israel, Jordan, Kuwait, Malaysia, the Philippines and Turkey. The Farmer Review found there was a clear view in discussions in Indonesia that the practices seen on the ABC's Four Corners program were unacceptable. More broadly, the suspension created concern in a number of countries, especially in countries highly dependent on Australian livestock imports, about the reliability of Australia as a supplier. There was sensitivity in some countries about any suggestion that Australia might be seeking to mandate its own standards overseas, but a ready understanding that Australia would look to ensure, via commercial arrangements, welfare of Australian animals in accordance with the OIE requirements, while allowing an economically important trade in livestock to continue in the future.

6.1.5 Government Consultation

The Department of Agriculture, Fisheries and Forestry consulted a wide range of Australian Government departments to assist with the development of the domestic assistance packages. This included with the Department of Human Services (in particular, Centrelink), the Department of Education, Employment and Workplace Relations, the Department of Families, Housing, Community Services and Indigenous Affairs, the Department of Health and Ageing, the Department of Regional Australia, Regional Development and Local Government, the Department of Infrastructure and Innovation and the Attorney-General's Department.

The Department held weekly interdepartmental committee meetings and a number of Secretary committees with jurisdictional counterparts on the progress of the new regulatory framework for livestock exports to Indonesia and the development of the proposed framework for other markets. State and territory ministers were also consulted at the Primary Industries Ministerial Council meeting on 14 July 2011.

The Queensland, Northern Territory and Western Australia governments were represented on the IGWG for cattle exports, with all mainland states and territories represented on the IGWG for sheep and goat exports. The Queensland, Northern Territory and Western Australia governments were also consulted on the development of Government assistance packages including the Subsidised Interest Rate and access to Advice and Planning.

6.2 Other engagement and Communication

The Australian Government has also undertaken other engagement and consultation with interested parties. This ranged from one-to-one meetings to communicating information to the general public.

6.2.1 Meetings

A number of meetings were held with animal welfare organisations, industry representatives and trade union representatives to discuss the animal welfare concerns in the Australian livestock export trade and the international requirements.

The Government discussed the livestock export trade with the community, holding a Community Cabinet meeting in Darwin (Northern Territory) on 29 June 2011 and another in Yeronga (Queensland) on 1 September 2011.

6.2.2 Ministerial Correspondence

The Government has also received approximately 150 000 pieces of correspondence (largely campaign emails) from industry bodies, animal welfare organisations and the general public on the livestock export trade.

6.2.3 Media

Livestock exports featured in the top five political issues covered by the Australian media for nine weeks between the end of May and the end of August 2011. According to Media Monitors, in the first seven weeks from 30 May to 16 July there were more than 58 000 individual media items in the press, radio, television and internet.

Between the end of May and the end of August, the DAFF media team received more than 220 media inquiries related to live exports which was approximately one in every three media inquiries.

6.2.4 Website/online

The Government established the www.liveexports.gov.au website to communicate information to the public on the Government's actions in relation to livestock exports. Information included on the website includes media releases, reports and communiqués from the IGWGs and links through to the range of assistance (financial and counselling) available for those affected by the temporary suspension.

This website was promoted through Google advertisements, and at its peak experienced 500-550 hits a day. The department also helped increase awareness of the financial assistance packages available through a targeted print advertisement campaign and proactive media. The department also worked closely with the Department of Human Services, which undertook its own activities to encourage people to apply for financial assistance through a SMS, phone and email campaign.

6.3 *Reviews and studies*

As mentioned above, the Australian Government commissioned the Farmer Review and established two industry government working groups. The Australian Government also commissioned a number of other reviews and studies in relation to livestock exports.

The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) conducted a survey of beef cattle producers in northern live cattle export regions between 24 June-1 July 2011. ABARES surveyed 230 farm businesses in northern Australia in late June and early July 2011 to determine the effects of the suspension of the trade in slaughter cattle to Indonesia. Findings from the survey were used to inform the development of the proposed regulatory framework.

The Australian Government commissioned Hydros Consulting to report on qualitative as well as financial information from small and medium producers in the Kimberley and Northern Territory and service providers to those producers. The report was published in July 2011.

The Australian Government asked the Chief Veterinary Officer (ACVO) to coordinate an independent, scientific assessment of the ongoing appropriateness of both the Mark I and Mark IV restraint boxes. This assessment, based on material provided to the ACVO, concludes that slaughtering of cattle using the Mark I restraint box does not comply with several elements of the internationally accepted animal welfare standards for the slaughter of animals: the OIE Code—Chapter 7.5 Slaughter of Animals. The findings of the assessment have been used to inform the development of the proposed regulatory framework. The ACVO’s report was published online on 24 August 2011.

7. CONCLUSION AND PREFERRED OPTION

The Australian Government’s preferred option is to pursue the implementation of a new regulatory framework for all markets and livestock species (option three), with a phased implementation approach across markets.

The proposed regulatory framework addresses the problem of the mistreatment of Australian livestock in supply chains in foreign markets by requiring exporters to provide assurance that livestock exported from Australia will remain in approved supply chains up to the point of slaughter. By implementing regulatory arrangements, the Australian Government can safeguard Australian sourced animal welfare outcomes by giving permission to export livestock only to those supply chains which are assessed by independent auditors as meeting the OIE animal welfare requirements, thereby addressing concerns of the Australian community. While it is difficult to quantify the benefits to Australian livestock and the Australian public, the improved animal welfare outcomes and increased certainty for industry could arguably be equal to or exceed the additional costs of this option.

8. IMPLEMENTATION AND REVIEW

8.1 Implementation Approach

The proposed regulatory framework would be implemented following appropriate consultation with key stakeholders and while taking into account the Australian public expectations for prompt actions on animal welfare the transition will take into account:

- The complexity of the livestock export markets
- The sensitivities of international trading partners to change in the trade
- The time needs of the Australian livestock export industry to put in place compliant supply chain arrangements for each market
- Potential domestic impacts caused by rolling out the framework
- The necessary time to establish an appropriate and considered regulatory framework to support varied assurance mechanisms.

The preference is to implement the phased approach across markets. This approach is based around a three tranche implementation that would deliver the supply chain assurance framework to 75 per cent of Australian exports by the end of February 2012, 99 per cent by the end of August 2012 and the remainder by the end of December 2012. The timeline for introduction would also reflect the high priority placed on rapidly demonstrating acceptable animal welfare outcomes by the

Australian Government.

8.2 Communications Strategy

A communication strategy will provide support to build on earlier and ongoing engagement and communication activities. Engagement and communication activities could include briefing foreign governments, engaging through the OIE, briefing key government, industry and non government stakeholders and other communication activities as appropriate.

A strategic and consistent approach to communications will help:

- ensure the most effective use of available resources
- enhance communication with, inform and motivate key stakeholders (domestic and international).

The communication strategy may include media, advertising, information sessions/forums, supporting materials (fact sheets, web content), the establishment of a dedicated call centre and use of existing channels/vehicles to deliver messages including state/territory governments, industry associations and non government bodies as necessary.

8.3 Review

The Australian Government proposes to review the implementation of the regulatory framework and report back to Parliament after sufficient time has passed in which to refine and evaluate the effectiveness of the approach. This is proposed as being one full year after implementation of the final tranche (that is, in 2014).

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