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# **The Live Export Trade: An Economic Dead End for Australia**

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## Introduction

### *Economics of the live trade: a questionable logic*

Concerns that the live animal trade will have a long-term negative impact on the viability of Australian based abattoirs and meat processing works are increasingly being heard. Until recently, government and industry investigations into the issue have failed to critically assess the real nature of the equation at hand. However, a continuing insistence that because of this the live trade continued to be in the best interests of the Australian economy (and therefore its people) is a leap too far. In continued support of the live trade, most proponents for the trade have asserted that the ability to substitute a chilled meat/carcass trade for the current live animal trade is minimal, if not non-existent.

According to this logic, if Australian producers were to stop exporting live animals, an initial rise in slaughter would occur, followed by a gradual decline back to a point where meat exports were only slightly above the amount when live exports existed. Therefore, it was reasoned, a ban on live exports is not in the interests of the Australian producer or economy. These assertions of non-substitutability have then been further perpetuated by logistical ‘furfphies,’ such as lack of refrigeration at destination, or the need for traditionally slaughtered *Halal* meat within the Middle East.

As current details of Australia’s meat exports indicate, these assertions are no longer valid:

- A large proportion of Australian export licensed abattoirs employ *Halal*-accredited slaughtermen;
- Many of the Middle Eastern nations that import live animals also import chilled meat from Australia.

At the peak of Australia’s live sheep export trade with Saudi Arabia, there were over 3 million sheep being exported annually to that country alone. When the effect of the Saudis’ 1989 ban on exports came fully into place, the exports of chilled meat/ carcasses to Saudi Arabia more than tripled in the years to follow. This is one significant example that destroys the assertion of minimal substitution, as advanced by the live animal export lobby.

- Modern food handling and cold storage in most Middle Eastern countries has also significantly decreased the need to keep imported Australian meat fresh by shipping the animals alive to destination.

The means of distribution and points of sale of refrigerated meat within these countries is constantly enlarging and, as the example of Saudi Arabia indicates, the possibility of substituting chilled meat exports for live animals is potentially both great and lucrative.

The debate over live exports back on home ground has been mainly one-sided, fueled by the lobbyists for the trade, Government support and those who have invested in its infrastructure, such as the hundreds of trucking concerns that move live animals to ports.

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Animal welfarists and trade unionists have consistently raised a more critical perspective of live exports. The wider community's active detestation of the trade has usually only come to the fore with the reports of large scale animal deaths and suffering, as a result of an accident at sea, or because of the closure of a local abattoir and the subsequent sacking of hundreds of employees. The trade is resilient to its opponents and to wider community concerns, continuously championed by government and the meat industry itself, as being in the best interests of both primary producers and the Australian economy.

The live animal trade has without doubt greatly increased the market opportunities for producers and exporters, when sheep and cattle were in abundance and overseas markets, particularly in the Middle East were being developed.

It is therefore necessary to explore what supports these assumptions and to analyse what is really beneficial to the Australian community. If it is simply a case of selling raw primary resources to the highest bidder, then the live export industry would deserve full support. However, surely the focus should be on

- promoting value-adding opportunities within Australia;
- increasing levels of employment, particularly within regional areas;
- maximising the number of parties participating and benefiting from value-adding.

In this context, the role of the live export industry in the Australian economy deserves a closer look, beyond the umbrella of industry protection and self promotion. A very different picture emerges of the economic foundations on which the trade has so often been promoted and legitimised.

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## Employment

### *Jobs to the slaughter: Sacrificed to Live Exports*

Two questions:

- 1. Recently, we counted 5 million live sheep and 800 000 live cattle (before sailing) but how many Australian jobs were manning the floating cages?**
- 2. What does a seemingly random selection of the following places have in common, other than being located somewhere on the Australian continent?**  
Robbs Jetty, Midland, Hunter Valley, Broome, Gepps Cross, Wyndham, Townsville...

The answer to the first question is, ‘Very Few!’ Other than an Australian veterinary officer being aboard for certain shipments, the master and crew are invariably foreigners. Moreover the vessels themselves are often of questionable seaworthiness, sometimes barely acceptable at an Australian port.

The second question lists communities that have suffered the dramatic ramifications of the closure of a large meat processing works. In some cases, this has resulted in the loss of employment for up to 400 workers. Given that the majority of these meat-processing plants are situated within regional areas, the impact of such a closure has been nothing less than devastating on local communities and businesses.

While the live export trade obviously cannot be isolated as the sole cause for the closure of these meat processing works, it has certainly played a significant role. The questionable side effects of the trade have been recognised since the late 1970s, when the growth of the live sheep trade relative to meat exports began to cause concern for industry and Government. During this period, excess capacity and falling unemployment levels in the meat processing sector made the issue of live sheep exports a contentious one. With the phenomenal growth of the live cattle trade in recent years, these issues have come to the surface once again. This issue has surfaced first, in the form of meat processing plants struggling to remain profitable or in their actual closure. Secondly, these issues have surfaced to the wider community’s attention in the form of Government and industry reports.<sup>1</sup>

Given these circumstances, the next most appropriate point of investigation is to identify exactly what the hidden costs are to Australia when livestock is diverted to the live trade, rather than being processed within Australian meatworks.

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<sup>1</sup> Back in the early 80’s, research on this issue was commissioned by the Government resulting in BAE (1983) *Live Sheep Exports*, Occasional Paper 81. Evidence of recent concern can be found in the commissioning of a report by the Queensland Labour Party into the “Economic and Social/ Community Impacts of the Live Cattle and Processed Beef Export Supply Chains” and by MLA into the “Quantitative and Qualitative Assessment of the Contribution of the Livestock Export Industry.”

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In Australia, the meat processing industries employ more people and earn more export dollars than any of the other 22 industry classes in the food, beverage and tobacco subdivision as indicated by the following figures:

<b>Division</b>	Manufacturing	953 700
<b>Subdivision</b>	Food, beverage & tobacco	167 774
<b>Group</b>	Meat & Meat Products	50 8111
<b>Class</b>	Meat Processing	31 480 <sup>2</sup>

As the figures indicate, the industry as a significant labour market, includes large slaughtering operations employing as many as 450 workers. The indirect economic impact of a business of this size needs also to be taken into account.

Two types of indirect jobs flow on from such large industries. There are jobs created by

- the existence of suppliers and service industries;
- jobs created by the consumption needs of employees.

A prime example of this can be found at Fletchers International abattoir, located in the South West of Western Australia. Fletchers directly employs about 450 staff, generating about \$20 million in wages to the local community, annually. This figure does not include all those indirectly employed by Fletchers, such as the transport companies, skill hire agency and providers of mechanical repair and service.

ABS data shows that direct and indirect economic linkages of meat processing embrace a wide range of sectors including transport, wholesale trade, energy, packaging and paper, other feedlot products, plastic products, mechanical and other repairs, banking and financial services, communication, business services, public administration, health and other services.<sup>3</sup>

The capacity of a meat processing plant such as Fletchers International to directly employ hundreds of people and subsequently to generate a complex, wide reaching economic web that

- creates more jobs, services and local infrastructure in the surrounding community
- is of enormous importance to regional Australia where unemployment and loss of services are all too familiar causes for community concern.

A recent report estimates the total cost of the live export trade to Australia could be around \$1.7 billion in lost GDP, around \$280 in household income and around 12,000 jobs.<sup>4</sup> Perhaps Russell Carr, the Queensland AMIEU director describes most succinctly the economic absurdity of exporting Australian animals live<sup>5</sup>:

“By exporting live cattle we are exporting our resources in

<sup>2</sup> *Australian Farm Surveys Report 2000*, p 51

<sup>3</sup> ABS Catalogue 6246.0 (various series)

<sup>4</sup> Heilbron, p 55

<sup>5</sup> Carr, Russell (15/01/01) <http://jinx.sistm.unsw.edu.au>

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their least valuable form.”

“We are losing jobs and reducing the value of our exports. If we process the animals once they reach maturity, at over 550kg, we increase the product value: chilled and frozen beef is worth far more per kg than live cattle. We would also dramatically increase the value of our exports and create more jobs.”

New Zealand knows the benefits of slaughtering at home. New Zealand’s meat export industry is a major employer of labour, engaging close to 8% of the nation’s workforce. The industry employs nearly 60,000 people.<sup>6</sup> With Government and industry making a strategic decision to restrict live exports, New Zealand processors have been able to focus their attention on creating value-adding opportunities through further processing. Over the past 10 years, the volume of sheep meat further processed in New Zealand has risen from around 25% to over 80% of the total export kill.<sup>7</sup> This has significantly increased the value of their exports and evidently made an enormous contribution to the nation in terms of employment and indirect flow-on benefits.

Given the benefits indicated above from New Zealand’s experience of restricting live exports,

**why does the Australian industry and government continue to support the live export trade at such a large cost to national employment in the meat processing sector and the massive community benefits associated with such large scale employees in regional areas?**

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<sup>6</sup> *New Zealand Red Meat Industry Strategic Direction : Towards 2006* p 3

<sup>7</sup> *Ibid*

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## Value-Adding

### *A land of missed opportunity: Value-adding and Live Exports*

Value-adding is a term that frequently crops up in the discussion of changes to economic policy and its subsequent implications to local economies and communities. It has received particular attention in forums discussing the struggles of regional Australia. Value-adding has been cited by politicians and economists alike as an approach which has the capacity to reap significant additional economic benefits to areas of raw agricultural commodity production, as well as the wider national economy at large.<sup>8</sup> So what does this term mean and what is its relationship to the live export trade from Australia?

Value-adding encompasses any process or service in the supply chain that adds to or enhances the market value of products to customers. It can include, among other things:

- transforming raw products into highly processed or manufactured products;
- promotion and marketing activities to differentiate Australian products;
- introducing quality assurance standards;
- increasing utilisation of by-products.<sup>9</sup>

Value-adding can thus potentially take place both on and off the farm. Within the sphere of meat production, an example of on farm value-adding might be producing Australian free range, organically fed beef. A classic example of post farm value-adding would be exporting a chilled lamb roast pack, as opposed to simply exporting the animal itself (as in live exports) or even of selling an unprocessed carcass.

When comparing the perceived economic benefits of the live export trade as against the processing of livestock within Australia, the issue of value-adding is most certainly a significant one. For the economic relationships resulting from exporting a sheep on all four legs or exporting a sheep dissected and processed into a range of products are obviously quite different.

As a means of quantifying such economic relationships, a study was undertaken by researchers on behalf of Agriculture Western Australia in December 1997.<sup>10</sup> This report was written with the interest of being able to measure and thereby compare the relative contribution of major agricultural industries to State and regional economies. The analysis undertaken in this report focused on the value-adding components of Western

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<sup>8</sup> Tayner, Richard (1999) *Value-adding to regional communities and farming industries* Regional Australia Summit 27-29 October 1999 p3

<sup>9</sup> Submission to the House of Representatives Standing Committee on Industry, Science and Resources (1999) *Increasing value-adding to Australia's raw materials* Commonwealth Dept of Agriculture, Fisheries and Forestry- Australia.

<sup>10</sup> Islam, Nazrul (1997) *Agriculture and the WA Economy: Value-added Contribution of Agricultural Commodities* Office of Policy and Planning, AgWest Dept.

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Australian 'agri-industry' for 1994-1995.<sup>11</sup> For the relevance of this discussion, the focus is principally on the post-farm value-added measure, which measures the contribution to the State of agricultural-based non-farm sectors. This measure indicates the degree to which non-farm sectors of different industries contribute to the State income, per dollar of the farm sector's contribution.

In terms of the total value-added component, the meat industry was calculated to be the most important, with a total value-added component estimated at \$1.5 billion or 40% of the State's total value-added component. The distribution of the post-farm value-added component and total agri-industry value-added component indicates that the meat based non-farming sectors **add more income to the Western Australian economy than any other agriculture based non-farming sectors**. In terms of the post-farm value-added component per dollar of the farm value-added component, the meat industry was the second most important industry, second only to the horticulture industry.

In essence, the results collected indicate that animal meat dependent non-farm sectors already contribute the highest level of value-adding to the state economy. Furthermore, the report verifies that the potential value-adding capacity of this industry is likely to come from increased meat exports<sup>12</sup> and that is why **increased value-adding potential is unlikely to come from the live export sector**.

Whilst the data used in this study includes both domestic and export abattoirs and therefore cannot be directly compared to the value-added component of the live export trade for either sheep or cattle, there are nonetheless some important conclusions to be drawn from the study. These are:

- animal meat dependent non-farm sectors have shown the capacity to contribute by far the highest level of value-adding to the State economy.
- this value-adding capacity has the potential to become even greater, through an increase in meat exports.

These two statements are significant: each year millions of sheep and thousands of cattle are shipped from the shores of Australia to be processed in overseas abattoirs. **It is clearly a case of economic absurdity to export one of Australia's most profitable resources in their least valuable form**. Each live sheep or steer that is exported is lost to Australian processors. It is a well-known fact that profitability in the meat industry is dependent on maintaining a high throughput and yet their supply is being eroded, like so many pieces of iron ore sent to the steel furnaces overseas.

Two more questions must be asked at this point:

1. **why, given Australia's comparative advantage as one of the world's largest livestock producers, is this resource being exported in its least valuable form?**

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<sup>11</sup> By way of definition, the term agri-industry refers to both farm and non-farm sectors.

<sup>12</sup> Islam, N, p 8-10

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**2. Why is there such a massive erosion of value-adding in this country and employment opportunities given to overseas countries?**

On the face of it, the answer to both is obvious: the trade is profitable to those associated with the live animal trade in this country. The most interesting aspect in answering these questions revolves around the reasons behind the profitability of the live export trade, as opposed to the intrinsic profitability to the Australian community.

The countries importing Australian sheep and cattle are interested in capturing the value-adding and employment opportunities at their end: they employ strategic measures, in the form of tariff escalation and non-tariff barriers, to encourage this. This enables them to establish domestic manufacturing and processing industries, based on imports of raw input materials. This furthermore acts as a disincentive for value-adding in Australia.<sup>13</sup>

Given the enormous benefits of value-adding, both the Australian economy and to the Australian community, the economics of the live animal trade deserves both Government and industry attention.

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<sup>13</sup> Submission to the House of Representatives, p 10

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## Live Export Markets

### *Distortions and Value Grabbing*

There is overwhelming evidence available, to illustrate the complex, wide reaching web of economic benefits that the meat processing sector brings to the Australian community and economy at large, particularly within rural areas. With its potential contribution to value-adding and employment far outweighing the contribution of the live export sector, three more questions should be posed:

- 1. what continues to drive the trade?**
- 2. what are the economic forces at play that are making it increasingly difficult for the meat processing industry to remain competitive and profitable against the live export sector?**
- 3. why, given the increased demand for meat in South East Asia in particular, has this market opening been met with live exports, rather than with exports of chilled/frozen meat?**

Whilst the demand for live animals has undoubtedly resulted from increases in living standards in developing countries, which in turn has resulted in an increased demand for meat, the primary factor driving the live export trade has been market distortions in favour of live animals.<sup>14</sup>

These market distortions exist in the form of tariffs and other non-tariff barriers, which are designed to favour the imports of raw rather than processed product. This enables the importing country to capture the profit, value-adding, employment and other associated flow on benefits. This situation was described as a major driver of the trade by the *Australian Meat & Livestock Reform for the Future* document<sup>15</sup>:

“A number of factors have continued to ensure that the livestock industry continues, including;

- the employment generated in overseas countries by the importation infrastructure in livestock transport, holding and slaughter.”

Governments of importing countries employ a number of strategies, that are designed to make it significantly more accessible and attractive to import live animals, rather than processed meat. This incentive structure includes

- escalating tariffs, in which tariffs are higher for meat than livestock products,
- other non-tariff barriers.<sup>16</sup>

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<sup>14</sup> Heilbron, p 5

<sup>15</sup> Australian Meat & Livestock Reform for the Future: Section Three- Total Meat Industry scope: Live Exports Overview.

<sup>16</sup> Heilbron, p 6-7

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Some of these non-tariff barriers include factors such as discriminatory labeling and record keeping requirements, limitations on which private sector operators can buy and sell imported meat and limiting access to internal markets for imported meat, whilst allowing sales of meat processed from imported live animals.<sup>17</sup>

One specific example of a non-tariff trade barrier highlighted by the Federal Minister for Trade, Mark Vaile,<sup>18</sup> was found in Syria, where animal health certificates were valid only for a period of two weeks, or in Jordan where there is a restriction on the import of chilled meat, by virtue of a 72 hour maximum entry period from slaughter. In both these circumstances, it is virtually impossible for Australia to export chilled product. Such examples of non-tariff barriers are clearly aimed at preventing the demand in the market being met by international imports of cheap meat whilst simultaneously encouraging the importation of livestock.

Whilst there appears to be less occurrences of tariff escalation amongst the countries to which Australia exports live sheep, there are nonetheless barriers in the form of non-transparent subsidies and quarantine restrictions such as those cited above.<sup>19</sup>

With regards to those countries to which Australia exports live cattle, there is ample evidence of market distortions, particularly in the form of tariff escalation. Generally, tariffs were around twice as high for beef as for cattle, with an even higher margin existing between cattle and further processed beef products. Examples include Indonesia, where the agreed WTO tariff binding was 45% for live cattle and 70% for beef. The applied tariff was free for live cattle over 350kg and up to 40% for beef. For Egypt, the agreed WTO tariff binding in 1995 was 15% for live cattle and 35% for beef.<sup>20</sup>

Even the live exporters themselves recognise that the value and profitability of the trade is not intrinsic to the product itself, but rather a product of market distortion in the form of tariff and non-tariff barriers:

“The live export trade exists only because the governments of those countries see significant advantages in the trade, protecting it from competition from cheap meat imports from a variety of countries. This is done through quotas and tariff protection. Import duty on meat entering these countries ranges from 20-30% and, in

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<sup>17</sup> Vaile, Mark (200) Speech by the Minister for Trade at the AMC’s CEO’s Conference

<sup>18</sup> *Ibid*

<sup>19</sup> Heilbron, p 18. A number of these countries (such as Saudi Arabia, Jordan, Oman & Lebanon) are not WTO members and as such are not subject to the disciplines on protectionism and subsidies provided by the WTO.

<sup>20</sup> *Ibid* p 27

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addition, there are strict import quotas. Conversely, duty on live animal imports ranges between nil and 3%.”<sup>21</sup>

So it appears that in this international arena of trade, Australia’s comparative advantage as one of the world’s largest livestock producers is envied considerably by those countries unable to supply their own demand for meat. The examples cited above of market distortion are all instances of small strategic moves that form part of a larger agenda of foreign governments to capture the value-adding, employment and profit that can be generated from this valuable primary resource. These examples also constitute further evidence that there is more than just heads of livestock being exported from Australian shores, when shipments of cattle and sheep leave for overseas.

Whilst the current government has certainly indicated that enhanced market access for value-added agricultural products is a high priority, it appears that there remains plenty of negotiating to be done, to ensure that there is equal market access for exports of processed product, as for exports of live cattle and sheep.<sup>22</sup> It is perhaps also appropriate for the Australian Government, given its policy commitment to value-adding, to assess its support of the live trade in the form of assisting the building of infrastructure for live export requirements, both domestically and in overseas countries.<sup>23</sup> Every feedlot that the government assists in setting up via the foreign aid program is yet another diversion of jobs and value-adding from the Australian economy and community. It is assistance that might have been alternatively channeled towards the setting up of refrigeration infrastructure overseas, to further assist the market access of value-added processed product.

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<sup>21</sup> Queensland Live Exporters Association as quoted in Kaus, R, Lapworth, J and Dunn, R (1997) *Marketing Cattle to South East Asia*

<sup>22</sup> Vaile, Mark (2000)

<sup>23</sup> Heilbron, p 7.

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## Byproducts and Coproducts

### *Live Exports: Eroding the foundations of Value-adding Industries*

Having pursued at length the grave implications the diversion of livestock to the live export trade has on the Australian meat processing sector, it is perhaps important also to consider its impact on other industries. Alongside the meat processing works themselves, there are enormous numbers of businesses reliant on a supply of coproducts from Australian based abattoirs, for the creation of their own processed product. These are businesses such as small goods producers, pet food producers, manufacturers of industrial products and those companies that produce veterinary and pharmaceutical products, to mention but a few.

In general, the combined weight of coproducts from a carcass is the same as the weight of the boneless meat of the carcass.<sup>24</sup> This clearly represents a large mass of animal parts that, given the appropriate processing and treatment, can result in many economically significant products, processes and industries, as the following examples illustrate:

- In 1998/1999 West Australian hide and skin exports represented 7% (A\$53m) of the nation's total hide and skin exports of A \$810m.<sup>25</sup>
- In 1994/95, Australian meat meal exports contributed significantly to the value of the meat industry generating \$52.1 million dollars.<sup>26</sup>
- The total value of Australian tallow production in 1997/1998 was \$215 million.<sup>27</sup>
- In 1991/1992 the total retail market for prepared pet foods in Australia is estimated to be in the vicinity of \$650 million (Meat Research Corporation 1992), which comprised \$445 million of wet pet food and \$205 million of dry pet food.<sup>28</sup>

This brief list of statistics illustrates in the abstract form of dollar value the contribution that some of these coproducts-based industries make to the Australian economy. While there is no data currently available on national employment levels within coproduct industries, it must be (as with meat processing) by-product manufacturing that creates significant levels of employment and income within Australia. It is an industry almost entirely dependent on the supply of Australian livestock for its own viability and its profitability is integrally linked to a capacity to establish economies of scale.

Both these factors would therefore indicate that by exporting Australian livestock to be slaughtered overseas, we are eroding the supply of coproducts available to by-product manufacturers. As significant, an adverse economic environment is being established, in

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<sup>24</sup> MLA Coproducts Overview p 4/5

<sup>25</sup> AGWEST Trade and Development Market Intelligence Project: Trade Outlook report. Australian and WA export statistics for 1994/95-1998/99.

<sup>26</sup> Macarthur Agribusiness (2001) *Economic and Social/Community Impacts of the Live Cattle and Processed Beef Export Supply Chains in Queensland* p 15

<sup>27</sup> *Ibid* p 18

<sup>28</sup> *Ibid* p 21

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which the ability of existing operators to achieve greater economies of scale and profitability is continually weakened.

In order for meat processing works or individual by-product based companies themselves to outlay the capital to create more innovative byproduct processing infrastructure, they need to be guaranteed that these initial costs will be met by a sufficient throughput of livestock/coproducts to make this further processing profitable.<sup>29</sup> It is clear that Australia's live export trade has affected supplies of livestock and in times of good seasons has played its part in creating the excess capacity experienced by many processors. This excess capacity has in turn been a major reason for continued depressed profitability amongst Australian meat processors and by-product manufacturers.<sup>30</sup>

Thus the continued existence of Australia's live export trade is directly responsible for stopping the flow of jobs and income into the Australian community, jobs that might otherwise have been created in Australian based by-product manufacturing. The current alternative it offers is to pay off the farmer at the farm gate and allow the value-adding from meat processing and by product manufacturing to take place in the importing country. This is a by-product of economic absurdity.

For anyone seeking examples of how the Australian government and industry might create an alternative outcome to this situation. Again, New Zealand has shown the way to go: their economic strategy to severely curtail the live export trade has vastly benefited their national economy. As identified in detail in the Heilbron report, any negative effect of this policy on livestock producers has been negligible, because it has coincided with substantial improvements in productivity and product development, in the processing of sheep in New Zealand.<sup>31</sup>

Over the past 10 years, the volume of sheep meat further processed in New Zealand has risen from around 25% to over 80% of the total export kill.<sup>32</sup> These figures indicate how with increased capacity utilisation, the New Zealand industry was able to not only improve productivity and efficiency, but most importantly they were able to use this enviable position to further invest in value-adding opportunities and innovative processing technology.

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<sup>29</sup> Personal Correspondance with West Australian Meat Processor

<sup>30</sup> Rolfe, J and Reynolds, R (1999) *Competition and Exit in Meat Processing: A Queensland Case Study*, Paper presented to 43<sup>rd</sup> Agricultural and Resource Economics Conference, Christchurch.

<sup>31</sup> Heilbron, p 53-4

<sup>32</sup> New Zealand Strategic Outlook: Towards 2006

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## **Complementary or Competitive?**

### ***Live Export and Meat Export Markets***

One of the central policy assumptions that has remained unturned during periods in which the live trade has been under scrutiny has been the proposition that Australia's exports of livestock and exports of processed product cater to different ends of the market. In the early days of the trade, this perhaps might have been correct. However, more recently, the markets supplied by Australia have become increasingly modernised and been exposed to an ever-growing internationalism in trade. As a result, there is a clear convergence of those markets supplied by Australia's live trade and markets supplied by Australian processed product.

This can be seen particularly within the more modern and enlarging supermarket sector. This specific market is of high value and consequently both domestic and international suppliers compete to meet demand. This has been an extremely important outlet, in which exports of Australian processed and value-added product have been successfully sold. However, Australian live exports have now introduced to these same export markets an extremely powerful competitor, namely meat from Australian livestock that has been processed within the export market.

To take a case study to exemplify the situation, within Indonesia it has been reported that:

“After some investigation, it appears that the supermarket sector in Indonesia purchase a large proportion of the beef derived from the live cattle imported from Australia.”<sup>33</sup>

“Increasingly, supermarkets are turning to meat from long-fed Australian cattle over imported chilled or frozen product to fill their needs. This has provided the opportunity to capture the higher end of the market, encouraging them to upgrade abattoir and processing facilities accordingly.”<sup>34</sup>

This information quite clearly contradicts the commonly made assertion that Australian live exports and Australian processed product are not competing products.

Given the continued expansion of Australia's live exports, particularly in supplying cattle to South East Asia, one could only expect offshore processors will be seeking to erode the current higher-value-end share of the market which Australian meat processors hold.<sup>35</sup>

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<sup>33</sup> As cited in Heilbron, p 47

<sup>34</sup> *Ibid*, p 48

<sup>35</sup> *Ibid*, p 51

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Valuable value-adding and employment opportunities are being simultaneously lost along with this. This is a situation which the importing countries, of course, are only too happy to accept. Not only do they receive all the benefits associated with meat processing, but they are also able to utilise the market differentiation of Australian products to create a higher valued end-product for their own economic benefit.

A similar competitive scenario has also developed back on Australian shores, between feedlotter and live exporters at the level of supply. Over the last decade in particular, the Australian Feedlot industry has grown at a rate comparable perhaps only to the phenomenal rise of the live cattle trade into Asia and the Middle East. This has resulted in direct competition for feeder cattle between feedlotter and live exporters, particularly for breeds such as Bos Taurus which have been in large demand in South East Asia. As indicated in the Heilbron report:

“The Australian feedlot industry has outstanding prospects for growth ... it has the potential to generate substantial increases in exports, value-added and profitability for all sectors of the value chain.

“However, competition from live exports, driven largely by distortions to free markets, could well limit the potential benefits for feedlotting in a similar manner to the way they have affected meat processing.”<sup>36</sup>

Both the above examples are situations in which the live export trade is both limiting and undermining new and exciting opportunities for value-adding, and depriving Australia of greater profitability derived from within the Australian community and economy. It is a situation in which Australian producers are selling their product at its weakest point and in effect giving away a unique product and value-added marketability, for the advantage of overseas processors and sellers. This amounts to nothing less than shortsighted management of one of Australia's most precious economic resources.

To understand the actual economic and social impact of these value-adding activities associated with the meat processing sector in Queensland, it is interesting to look at the following multiplier analysis of the processed beef sector to the Queensland economy. This shows the impact of these value-adding activities in terms of multipliers. The two types of multipliers featured in this chart measure the direct and indirect production induced effects (Type I multiplier) as well as the flow on effects of subsequent rounds of consumer spending resulting from additional wages and profits generated by these activities (Type II multiplier).

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<sup>36</sup> *Ibid*, 35-36

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**Exhibit 7.4 Economic Contribution of the Processed Beef Sector to the Queensland Economy**

Value Added Contribution of the Queensland beef processing sector (\$M)				486
Economic Indicator	Type I Multiplier*	Type I Impact	Type II Multiplier	Type II Impact
Value Added (\$M)(a)	0.71	345	1.15	559
Employment (b)	13.75	6,683	20.45	9,939

*ABS and QDPI Queensland Treasury and Macarthur Agribusiness*

*Source: ABS/QDPI: excludes hides, pet food, meat meal and tallow by products.*

*Multipliers taken from Queensland Treasury*

*Type I Multiplier: measures the direct and indirect production induced effects*

*Type II Multiplier: takes into account the flow on effects of subsequent rounds of consumer spending resulting from additional wages and profits generated through increased demand.*

*(a) Effects of a unit increase in sales to final demand.*

*(b) Effects of a unit increase in sales to final demand, scaled to represent employees per million dollars of output.*

This multiplier analysis indicates the flow-on impact for cattle slaughtered in Queensland, above the direct value-added contributions of the beef processing sector. As can be gauged from the figures quoted in this chart, the magnitude of flow on benefits associated with the value-adding activities involved in meat processing is enormous. When considering that many of these flow on benefits, such as increased employment and consumer spending occur predominantly within regional areas, it is clearly evident why it is so important for Australian livestock to be processed on shore. With every sheep that is exported live, Australian meat processors and byproduct manufacturers are losing throughput to overseas countries. As noted previously, profitability in the meat industry is dependent on maintaining a high throughput. Yet supply is being eroded.

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## Summary

### *Resourcefulness: A strategy for the future*

1. The sequence of arguments presented above testify to **the urgent need for government and industry to note the real impact that the continued growth of live exports is having on the Australian economy and community.**
2. In the current international market place, where the possibility for value-adding through forging strong product identity is greater than it has ever been, it seems absurd that **Australian producers are letting go of one of Australia's greatest resources in its least valuable form, to the live export trade.**
3. **This opportunity for value-adding to Australian meat products has been further augmented by the recent catastrophic spread of diseases such as Foot & Mouth and the Mad Cow syndrome,** from which Australia has fortunately remained isolated. Quite clearly Australian producers and industry representatives need to capitalise on this country's enviable position and promote the '*clean and green*' image to an ever-growing international market of discerning, well-educated consumers. It is within this climate that consumers are demanding and paying for not only a high quality product, but also one which is accountable at all stages of production and consumption.
4. **This includes establishing and maintaining responsibility and care at the 'Best Practice' levels of environment, animal welfare and health.** Shipping millions of valuable stock thousands of kilometres, and losing tens of thousands annually in transit suggests that this is reprehensible on both economic and humanitarian grounds. It certainly adds nothing to Australia's highly prized '*clean and green*' image. New Zealand by contrast has benefited, particularly at the level of promoting product identity, thereby increasing product value.

Australia's potentially lucrative 'lucky country' status described above should continue to be enhanced by determined market promotion that include the following:

- greater communication between supplier and buyer;
- quality assurance schemes;
- internationalisation of standards of accreditation (such as *halal* or *kosher*);
- efficient & faster transport;
- modernisation of hygiene standards and food storage facilities;
- educating foreign consumers.

How many more abattoirs have to shut down and how many more workers have to lose their jobs before it is realised that more than just livestock is being sacrificed to the live export trade?

If the Australian government is to remain committed to creating more employment and stronger economic foundations for regional communities through increased value-adding, then a more relevant long term strategy and vision into the marketing and selling of one

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of Australia's most potentially lucrative resources must be sought.

A dramatic reassessment of the Australian livestock industry is called for, with an about-turn in conventional support for the live export trade. This requires far-sighted and brave political leaders, to face up to the powerful lobbies of vested interests, and discussions to take place with primary producers, at all levels.

### **RECOMMENDATION**

**That the long term economic and social consequences of the live export trade are reviewed by Government and Industry.**

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