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Approved By:

Hugh Maginnis, Agricultural Counselor

Prepared By:

Roger Farrell, Agricultural Specialist

Report Highlights:

Australia is a leading international exporter of live cattle and Indonesia has been its main market for over two decades. However, an unexpectedly low Indonesian import quota for live cattle for the second quarter of 2015 recently shocked exporters. The lower quota reflects Indonesia's move towards self-sufficiency, although it may be revised. In response to access issues, Australia has sought to diversify export markets and seven new markets have agreed to export protocols. The latest is China under a bilateral agreement to supply up to one million cattle into this market. While capacity constraints in Australia will limit initial volumes to these new markets, exporters are likely to become less reliant on Indonesian quotas. Diversification of markets will however take time. The expansion of available markets for live cattle will boost a northern Australian industry affected by continuing drought and logistical difficulties.

OVERVIEW

Australia is a major exporter of live cattle. It currently exports 1.2 million head of slaughter cattle to countries such as Indonesia, Malaysia, Egypt, Cambodia and Thailand. Indonesia accounts for over half of Australia's \$1.3 billion live export market, but in mid-2015 Indonesia announced that it would only take 50,000 head of cattle in the next three months, down from 250,000 for the same period in 2014. This has left Northern Australian farmers needing to find a market for 150,000 cattle. Australian live cattle exports for 2015 are expected to decrease significantly to 900,000 head, a fall of 25 percent.

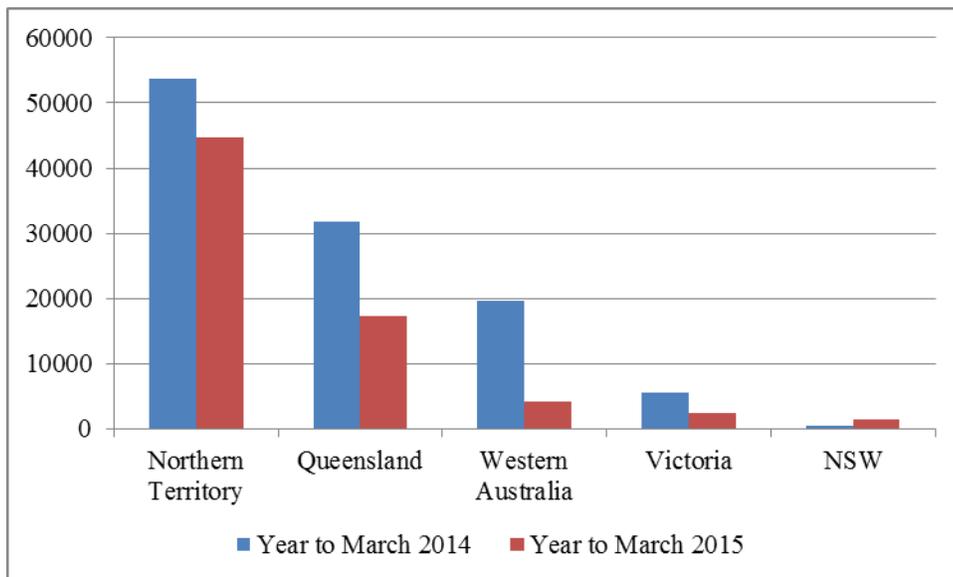
The Australian Livestock Exporters' Council (ALEC) indicated that the announcement was a shock to the industry, which had made significant investments to cater to Indonesian demand for beef. The ALEC noted that Indonesian importers had requested 200,000 head of cattle for the second quarter to meet the growing demand for beef in Indonesia. The quota cut was timed so it would affect the population with high prices at the end of the Muslim fasting month later this week as the necessary stock was already in the country. However the decision is likely to push meat prices higher in the longer term. Australia has been seeking a 12-month permit for live cattle into Indonesia so that suppliers can plan across the year.

Following Indonesia's move to greater food self-sufficiency, a new agreement with China was signed, although not in response to the lower Indonesian quota. The Australian Agriculture Minister said the agreement with China would open up a "massive new market" which aims to see Australia delivering a million head per annum to China within the next decade, effectively doubling the size of the current trade. China is the fastest growing market for Australian beef exports and is now the third largest beef market. The recent free trade agreement between Australia and China is expected to further boost bilateral trade.

Over the last two years, Australia has opened up seven new livestock slaughter cattle export markets, namely Lebanon, Bahrain, Egypt, Iran, Cambodia, Thailand and now China. In the short term, the ASEAN markets of Indonesia, Malaysia and Vietnam are expected to remain the dominant importers of Australian live cattle. Australia was granted access for feeder and slaughter cattle into Thailand on 21 November 2014. There is significant commercial interest in the Thai market, with the first shipment of cattle departing Australia in January 2015. Industry estimates that live cattle exports to Thailand could reach up to 30,000 head annually. Under the Thailand-Australia Free Trade Agreement, Australia enjoys zero tariffs on feeder and slaughter cattle imports into Thailand. However, these markets will take time to replace Indonesia's importance.

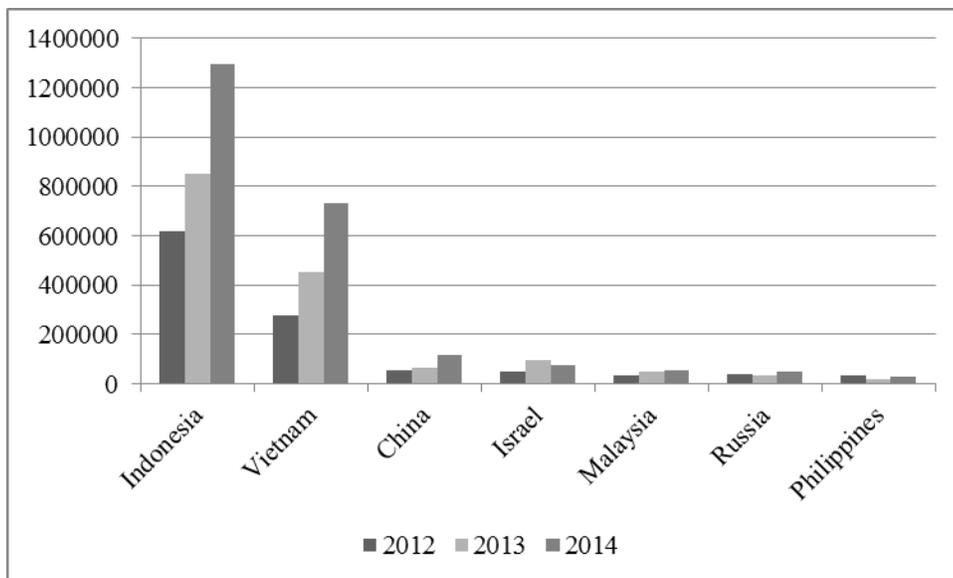
While demand for Australian live cattle has fluctuated, overall demand for Australian beef exports has risen significantly in recent years. In 2015, beef and veal exports are expected to decline to 1.5 million tons CWT as slaughter rates fall from record levels and herd re-building is given greater priority. The weaker Australian dollar has encouraged exports, as has strong demand from the United States, China, South Korea, South-East Asia and the Middle East, but supply constraints will limit volumes. Over 2014, the United States beef market overtook Japan as Australia's single largest beef export market and exports of manufacturing grade beef increased by one third compared to the previous financial year.

Chart 1: Australian live cattle exports by State (head)



Source: Meat and Livestock Australia and Australian Bureau of Statistics

Chart 2: Australian live cattle exports by major country, 2012-2014 (number)

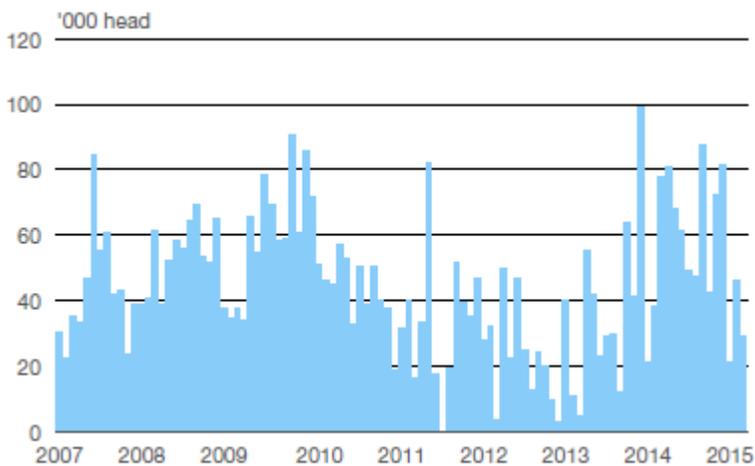


Source: World Trade Atlas

THE INDONESIAN MARKET FOR LIVE CATTLE

Indonesia currently accounts for over half of Australia's annual cattle exports but the Indonesian government has just reduced quotas for Australian live cattle from 250,000 in the last quarter to 50,000 in the next quarter (July to September) – a number well below industry expectations. The Australian Live Exporters Council said Jakarta had offered no indication that the quota cut was coming. The bilateral trade is worth about A\$700 million annually. Drought is forcing farmers to reduce the sizes of their herds across northern Australia and live exports are one of the few options available.

Chart 3: Australian live cattle exports to Indonesia, 2007-2015



Source: Meat and Livestock Australia and Australian Bureau of Statistics

Indonesian cattle importers had asked for 200,000 head of cattle in the July quarter for their feed lots and the lower quota is likely to see a shortage of cattle in Indonesian feed lots, reduced slaughter numbers and upward pressure on beef prices in Indonesia. In the first quarter of 2015, 100,000 permits were issued for cattle from Australia for the first quarter of 2015 but this became a greatly increased number in the second quarter. The recent annual average for this quarter has been nearly 135,000.

Indonesian Stance on Food Security

Shortly after taking office in late 2014, Indonesian president Joko Widodo had flagged that he wanted Indonesia to be self-sufficient in beef production within a year. This policy is still in place but there are doubts about whether the Indonesian cattle herd can be maintained given growing demand. Beef prices could rise significantly after the Ramadan religious festival finishes. There is a difference of attitude between the Indonesian agriculture ministry and the trade ministry. The latter is much more in favor of cattle imports but the current quarter's low figure suggests the agriculture ministry had the upper hand. The two ministries seek to balance the concerns of the Indonesia farmer against the consumer but could also reflect political tensions.

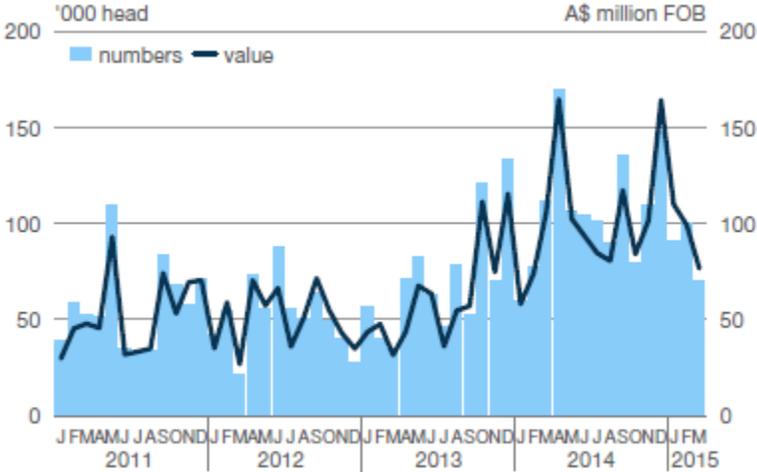
Bilateral Relationship as a Possible Cause

In 2011 the Gillard Government banned live cattle exports to Indonesia which resulted in Indonesia dramatically reducing the live cattle quota. The Gillard government had stopped live exports after footage emerged of animal cruelty in Indonesia, sparking outrage from both the Australian cattle industry and in Indonesia. Since then there have been greater bilateral political tensions on this and other matters. The Australian government has been recently accused by some of insulting Indonesia when senior politicians publicly criticized the executions of the ‘Bali Nine’ drug smugglers.

Relations between Indonesia and Australia have also been tested over the past 18 months. The cattle permit change comes just weeks after former Indonesian foreign minister Marty Natalegawa [said relations between Australia and Indonesia appeared to be at their lowest point](#). Australia's Ambassador to Indonesia Paul Grigson has only recently resumed his post in Jakarta after he was recalled after the "Bali 9" controversy where 2 Australian citizens were executed by Indonesia for drug smuggling.

Indonesian ambassador Nadjib Riphath Kesoema said the decision was based on economic factors and has nothing to do with the country's relationship with Australia. Similarly, Australian Foreign Minister Julie Bishop said it was a trade matter.

Chart 4: Australian live cattle exports and value, 2011-15



Source: Meat and Livestock Australia and Australian Bureau of Statistics

Chart 5: Australian sale yard and live cattle export prices, 2010-15



Source: Meat and Livestock Australia and Australian Bureau of Statistics

Outlook

Agriculture Minister Joyce will make representations on behalf of exporters and is likely to lobby for annual quotas instead of the current quarterly system. The cut in quota is different to the live export ban to Indonesia in 2011 as there were no other markets developed for Australian live cattle exports. Australia is now searching for new live cattle markets to deal with excess supply.

One problem is the dry season in the Northern Territory which makes it difficult to feed cattle during this period. However, Australia recently approved six new markets for live cattle (Egypt, Iran, Lebanon, Cambodia, Bahrain and Thailand) although Lebanon and Iran are yet to start operating. There is also potential to move to other markets as Indonesia's weight limit for feeder cattle is 350 kilograms, while Vietnam, which is an emerging export market, prefers a heavier animal that can be slaughtered almost immediately.

AUSTRALIA-CHINA LIVE CATTLE AGREEMENT

Agriculture Minister Joyce announced in mid-July 2015 that Australian and Chinese veterinary authorities were formalizing an agreement on animal health certification requirements, bringing commercial trade one step closer. The July 2015 announcement means that Australian exports of live slaughter and feeder cattle to China will commence this year after negotiations over at least 18 months. Under the bilateral agreement, Australia will become the first country to export feeder and slaughter cattle to China.

Over the past five years Australia has developed exports of breeder cattle to China, mainly for dairy heifers for the purposes of dairy farming. The new Live Cattle Agreement sets animal health certification requirements for Australian 'feeder and slaughter' cattle to be exported to feed China's growing demand for Australian meat ([See Fact Sheet: Agriculture and Processed Foods, Department of Foreign Affairs and Trade](#)). The Agreement is expected to lead to a doubling of the overall amount of live cattle exported from Australia within the next decade, which currently sits at 1.2 million head of slaughter cattle per annum. It is also expected to generate greater investment in the Australian agricultural sector.

The Australia-China Live Cattle Export Health Certification Agreement (Live Cattle Agreement) had been under negotiation for over 18 months and Chinese Quarantine Minister Zhi Shuping will sign the agreement on behalf of China shortly ([See: Media Release of Minister for Agriculture, 20 July 2015](#)). Exports could begin within weeks after 'appropriate safeguards' are established, according to Agriculture Minister Joyce, although volumes of feeder and slaughter cattle would be small initially and would increase over time to a forecast demand of one million head a year in a decade. Southern states could make up a significant part of the live export trade to China, because they are free of the bluetongue virus present in northern cattle markets.

The Live Cattle Agreement is a necessary step before the agriculture industry can begin exporting live cattle to China. Once signed by Minister Zhi, Australian 'feeder and slaughter' cattle exporters with a livestock export licence can begin to arrange post arrival supply chains under the Exporter Supply Chain Assurance System (ESCAS). Exporters can then proceed to export cattle to China provided the cattle meets certain health standards ([See: Exporter Supply Chain Assurance System, Department of Agriculture](#)).

China will be the seventh live cattle export market that has been opened to Australia in the past two years, following Lebanon, Bahrain, Egypt, Iran, Cambodia and Thailand. Australia's live cattle agreement with China is separate to the free trade agreement negotiated with Beijing. It is nevertheless assisted by provisions within the FTA that will reduce the current ten percent tariff on live cattle exports from ten per cent down to zero ([See: China: new market for livestock exports, Department of Agriculture](#)).

CONCLUSION

While the China agreement has the potential to more than double Australia's live export market and add A\$2 billion to exports, industry participants consider it could take years to establish. The new Chinese market is unlikely to immediately offset the dramatic reduction in Indonesian exports. Australian exporters need to firstly establish commercial relationships with Chinese customers, as well as ensure animal welfare was maintained from paddock to slaughterhouse. Further, China would most likely to seek to import cattle ready for slaughter compared to Indonesia, which buys younger and lighter animals to fatten up. However, the 150,000 cattle that were destined for Indonesia are highly likely to find another market as global beef prices remain high – for example Vietnamese meat consumption per capita is already greater than Indonesia and is considered a promising market for Australian exporters.

In the medium term, Australia will remain a major exporter of live cattle, especially as the northern cattle breeds are especially suited to export given the severe changes in seasonal conditions in this region. The expansion in export markets available will provide greater certainty for northern producers and an expansion in the industry's size is possible over time, especially as the further development of northern Australia is a priority for the Australian government. However, the capacity limits of the comparatively fragile region could also be an important factor in the industry's future.

APPENDIX A: AUSTRALIAN REGULATIONS ON LIVE CATTLE EXPORTS

The entire Australian livestock export process (from farm to the point of slaughter) is regulated by the Australian Government that incorporates two main regulations; the Australian Standards for the Export of Livestock (ASEL) and the Exporter Supply Chain Assurance Scheme (ESCAS). Furthermore, all livestock carrying vessels must have an [Australian Maritime Safety Authority \(AMSA\) license and comply with the provisions of Marine Order 43](#) of the Navigation Act.

Under the regulatory framework Australian livestock exporters and supply chain participants must comply with a range of stringent requirements that include:

- Exporters must be licensed by the Australian Government
- Livestock must be selected, prepared and cared for in compliance with legislated animal welfare standards.
- Livestock must only be prepared in Australian Government approved quarantine premises, known as registered premises.
- Skilled personnel including industry accredited stockpersons and in some cases government approved veterinarians must accompany and care for the livestock on the voyage (via sea or air).
- Livestock export vessels must hold an Australian Certificate for the Carriage of Livestock issued by the Australian Maritime Safety Authority (AMSA).
- Exporters must maintain control, traceability and ensure animal welfare of livestock from discharge through to the point of slaughter in the overseas market.
- Exporters must report on the outcomes of each voyage, including mortalities, which are then reported on a six monthly basis to the Australian Parliament. If mortalities exceed legislated levels, a comprehensive investigation is undertaken and conditions may be placed on future shipments to mitigate risks.
- Exporters must also provide the Australian government with an end of processing (EOP) report (within 10 days of the slaughter of the last animal within a consignment for cattle and buffalo). An exporter must also submit an independent performance audit report (IPAR). Copies of the IPARs are available to the public and can be accessed [here](#).

The [Australian Standards for the Export of Livestock](#) (ASEL) were developed as part of the Australian Government's response to the Livestock Export Review (The [Keniry Review](#)) and came into effect on the 1st December 2004. The standards outline the basic animal health and welfare requirements for the livestock export industry from farm through to the discharge of animals in the country of destination. ASEL also incorporates stringent reporting requirements for exporters to ensure the Australian Government can monitor animal health and welfare throughout a voyage and respond to emergency situations if they arise.

During all voyages livestock are cared for by trained and accredited stock people and during long haul voyages a veterinarian accredited by the Australian Government is also present. LiveCorp is responsible for the training and accreditation of onboard stockpersons for the industry. A requirement of ASEL is that all livestock mortalities are reported at the end of a voyage and these [statistics](#) are tabled in parliament every six months.

The [Exporter Supply Chain Assurance System](#) (ESCAS) framework was first implemented in July 2011 and as of January 2013 applies to Australian livestock exported for feeder and/or slaughter purposes. ESCAS was designed to improve the welfare of exported Australian livestock and has delivered significant and extensive changes within the industry. The ESCAS framework requires Australian exporters to hold a current [exporter licence](#) and obtain a permit to export feeder and/or slaughter livestock and the exporter must demonstrate that throughout the entire supply chain in overseas markets, through to the point of slaughter:

- Animals will be handled and processed through specified supply chains in accordance with the internationally accepted requirements for animal welfare established by the World Organisation for Animal Health (OIE);
- They have control of the movement of animals within their supply chain;
- They can track or account for animals throughout the supply chain;
- They have conducted independent audits of the supply chain, both prior to shipment and throughout post-arrival management of the animals.

As part of ESCAS export supply chains are subject to independent performance audits to ensure compliance with the framework and animal welfare is optimized. Copies of the independent audit reports are publicly available on the Department of Agriculture [website](#). Since the implementation of ESCAS as of the 30th January 2013 to October 2014 over 6.3 million livestock have been exported. Failure to comply with ESCAS can result in the Australian Government revoking a licence to export, apply conditions to a licence, failing to approve future consignments and criminal sanctions.

APPENDIX B: THE AUSTRALIAN LIVE CATTLE INDUSTRY

Live cattle exports are a major source of revenue for the northern Australian beef industry and since the 1990s, it has supplied the growing feedlot industry in South-East Asia, especially in Indonesia and the Philippines. A comprehensive survey of the industry was made by [ABARES](#) in 2012. The report noted that the feeder cattle trade with Indonesia is complementary for both countries as northern Australia has suitable tropically adapted feeder cattle for the Indonesian market, while Indonesia can effectively process these cattle at a much lower cost than would be possible in Australia.

According to ABARES surveys, farm businesses near the live export ports of Darwin, Broome, Wyndham and Port Hedland relied on live cattle exports for over 70 percent of their income for the three years to 2011. Cattle stocking rates are much lower than in southern compared to northern Australia. Cattle farms in the north of Australia must be very large to achieve economies of scale. Further, northern Australian grasses have a limited growing season and irrigation is needed to allow continuous production.

Many regions of northern Australia do not support intensive beef production because of the harsh climates and fragile soil while the wet season limits production and makes it difficult to finish cattle as in the southern regions. Consequently, the cattle industry in northern Australia is focused on the live cattle export trade. Northern cattle producers account for 75 percent of farming land in Australia dedicated to beef. Despite this they account for just under half of the national herd. Cattle in the northern region typically forage for feed over sprawling properties.

Survey of beef cattle farms in northern Australia (average per surveyed beef cattle farm)

Indicator	Northern Australia	Southern Australia
Area operated (hectares)	23,966	6,389
Stocking rates (number)	0.51	1.26
Beef cattle sales (number)	405	195

Source: ABARES (2012)