

29 September 2016

Regulation of Agriculture
Productivity Commission
Locked Bag 2, Collins Street East
Melbourne VIC 8003

Email to: agriculture@pc.gov.au

Dear Sir / Madam,

Thank you for the opportunity to provide a supplementary submission to the Productivity Commission's review of Regulation in Agriculture. This short submission should be read in conjunction with ALEC's initial submission, outlining the urgent need for sound regulatory reform in Australia's livestock export industry, as well submissions made by LiveCorp which detail the significant cost of regulation and provide options for amending current livestock export legislation. Both submissions presented by LiveCorp have the full support of ALEC.

Australia's livestock export industry is an important industry to Australia. Despite being a small contributor to Australia's economy, our industry is demonstrably economically significant for rural and regional areas - providing jobs and creating wealth. The industry creates essential market competition that drives livestock prices around the country, influencing farm gate returns for all producers, not just those directly involved in the trade. Additionally, the industry is an important industry globally, delivering high quality livestock for food-security and breeding purposes to countries around the world, many of which have insufficient resources to produce or store enough essential red-meat protein and fresh dairy product to feed their population. Australia's livestock export trade is emerging as a world leader in animal handling and slaughter, delivering skills and knowledge to our importing markets and driving improvements in animal welfare globally. The sustainability of this trade which is crucial for Australian livestock producers and exporters, relies on good, sensible and workable regulatory reform.

A key finding outlined in the Commission's draft report is that while some regulations lack a sound policy justification and should be removed, other regulations and regulatory systems need to be reformed so they can more fully achieve their objectives. This short supplementary submission highlights that the livestock export industry is not disputing the need for regulation, but without significant regulatory reform, Australia is at risk of livestock importers turning to competing export nations, that are able to supply livestock without the cost, risk and burden of regulation, that is imposed by Australia. Additionally, and more importantly, such competing nations are without animal welfare standards near comparable to that of Australia.

As outlined in our initial submission, ALEC believes that through smart, sensible regulation, Australian livestock exporters will be able to deliver improved animal welfare practices internationally without sacrificing the industry's growth and competitiveness. This includes giving proper consideration to all regulatory options to ensure it reflect best practice regulation. In considering the Commission's draft report, ALEC would like to make the following comments;

- ALEC does not support the establishment of an Independent body of animal welfare. Despite the Commission’s remit to identify areas for removing or reducing unnecessary regulatory burden, ALEC believes that a recommendation to establish an independent body, will in fact increase the regulatory burden, with no ability to deliver material improvements in animal welfare.
- In 2011, neither Government policy or industry behaviour was in touch with community expectation. As a result, the level of public outrage drove regulatory intervention of enormous proportion. In providing assurances of welfare, the principles of the industry’s regulatory framework, the Exporter Supply Chain Assurance System (ESCAS) provide public benefit. As such, there is an onus on Government to recognise the public good component of delivering improvements in animal welfare and invest in ESCAS accordingly.
- The Commission has endeavoured to identify where there is greatest scope to pursue regulatory objectives in more efficient ways. In acting on this, the Commission must support the development of a suitable Quality Assurance Program within the livestock export industry which reflects a progressive regulatory approach and will provide greater oversight and assurance of animal welfare and thus better demonstrate alignment between industry practices and community expectations.

1. Independent Office of Animal Welfare

ALEC does not support draft recommendation 5.1, that; *an independent body tasked with developing national standards and guidelines for farm animal welfare should be established*. In particular, ALEC does not support that an Independent body on animal welfare play a role in live export regulation, as was considered by the Commission. ALEC supports investment in delivering material improvements to animal welfare and does not believe that an independent body will provide any substantial welfare outcomes for exported livestock.

Animal welfare is core business for Australian livestock exporters. Not only is commercially sound, but taking responsibility for welfare outcomes is consistent with the industry’s reform strategy focused on better aligning ourselves and our behaviour with community expectation. In 2014-15, LiveCorp invested \$2,385,000, equating to 44% of its expenditure (producer and exporter levies) in supporting exporter activities to improve animal welfare and to meet requirements under ESCAS. This investment delivers training in animal handling and husbandry skills, conducting assessments in supply chains against animal welfare guidelines, SOPs and ESCAS materials and providing targeted technical advice in importing countries. Since 2011 and the implementation of ESCAS, such investment has delivered training to over 9000 participants in importing livestock supply chains, reflecting a real and substantial contribution to improving animal welfare.

Of all the countries in the world exporting livestock, Australia is the only nation investing in improving animal welfare outcomes in its importing markets. This investment and its impact on global welfare improvements has been acknowledged;

- In 2013 Dr Dereck Belton, Head of the International Trade Department of the OIE expressed appreciation for Australia’s support for a range of OIE activities with particular mention to Australian livestock exporters, noting that;

“...your investment in improving implementation of OIE animal welfare standards and taking those improvements internationally to the rest of the World, has the OIE’s full and unequivocal support.”

- It was recognised again recently by Mr Iain Mars, Chief Operating Officer, Minerva Foods, Brazil Beef, who presented at LIVEXchange 2015. Mr Mars said;

“What you have done here in Australia in animal welfare in the live business is phenomenal. I was impressed this morning seeing the controls you have in place for animal welfare. Bloody well done Australia, you’ve done a bloody good job. We still have a long way to go, and we are nowhere near the sophistication of the Australian industry.”

The Commission suggested that an Independent body on animal welfare may have a role in ‘reviewing the performance of the ESCAS, including the performance, independence and effectiveness of the auditing arrangements, and making recommendations for reform’. However, in 2015, the Australian Government did just that. A review of ESCAS found that while its introduction ensured the continuation of the livestock export industry, its development and implementation in such a short timeframe resulted in a framework that is ‘clunky, rigid and complex’. The report also concluded that ESCAS is administratively burdensome for both industry and Government and a number of administrative processes do not contribute to achieving the key objectives of ESCAS.

The industry and Government have the capability to work collaboratively to reform industry regulation and realise efficiencies. This has been demonstrated through the establishment of an Industry and Government Roundtable whereby opportunities to reform are identified and implemented through a joint effort by industry and Government as well as ongoing work in implement Approved Arrangements for livestock exports.

As noted above, animal welfare is good for business and ALEC supports investment in animal welfare through delivering material improvements. ALEC does not agree that an independent body on animal welfare would ‘ultimately help to further improve the welfare of Australian live exports’, as suggested by the commission and requests that the Commission acknowledge the industry’s changed behaviour towards animal welfare, the responsibility for which is entrenched in our operations, and recommend that this be reflected in a refreshed regulatory environment, not through an additional layer of bureaucracy.

2. Animal Welfare, Community Expectation and the Public Benefit;

The Commission’s draft report distinguishes between the value of animal welfare from a productivity and profitability perspective for livestock producers and exporters, and the value of animal welfare to the community, or those who may not be directly involved in producing (or consuming) animal products. The report acknowledges that public concern about the mistreatment of animals ‘can impose negative externalities on society’ and therefore indicates that Government has a role in delivering animal welfare for the benefit of the community.

ALEC’s initial submission to the Commission’s inquiry outlined that the livestock export industry’s regulatory framework was born out community expectation, therefore baring a substantial public good element. The Exporter Supply Chain Assurance System was developed over a six week period in response to public outrage to footage of mistreatment of Australian cattle in Indonesian abattoirs, and was designed to provide assurances that livestock exported from Australia were handled in accordance with international animal welfare standards, thus meeting the expectations of the Australian community.

Despite the Commission’s draft report suggesting that ESACS has ‘made some improvements’ to animal welfare, the industry’s adoption of ESCAS and its transformation since 2011 has been

recognised and endorsed by both the International Organisation for Animal Health and Welfare (OIE) and renowned livestock behavioural scientist Dr Temple Grandin. The success of its implementation is the result of significant investment of livestock exporters, importers and facilities, requiring that animal welfare become a core part of their businesses. Today, under ESCAS, exporters not only export livestock, they export animal welfare, through training and infrastructure developments and support the regulation through monitoring and reporting.

Since the inception of ESCAS, ALEC has sought recognition for the public good component of the system's implementation. While a proportion of the benefits of ESCAS, and ongoing ability to exert control over the trade, enhances the industry's sustainability, directly benefiting exporters, it is clear that there is also a significant Community Service Obligation (CSO) / public good component. The competitive neutrality guidelines of government are clear in that where a CSO exists, they should be transparent, appropriately costed and directly funded by government.

Despite the government, in large part, failing to acknowledge the public good aspect of ESCAS, it is often relied on for political purposes. Politicians regularly take credit for ESCAS, communicating that ESCAS was implemented because they listened to the public concerns about the treatment of exported livestock and responded appropriately. So not only are exporters facing a significant regulatory expectation and cost burden, there is little contribution from the public through government for the net benefits derived in improving the welfare of exported livestock.

ALEC firmly believes that the substantial public good element of ESCAS requires more active recognition and support from the Government.

3. Recognition and support for a suitable Quality Assurance (QA) system:

Since 2011, successive Governments have recognised that an appropriately constructed Quality Assurance (QA) program within the livestock export industry, could provide greater oversight and assurance of animal welfare. The development of a QA program was recommended by the Farmer Review and similarly reflected in the 2015 ESCAS Review Report. Both ALEC and LiveCorp submissions to the inquiry highlighted the significant opportunity that a QA program presents to the industry, and proposed that legislating to recognise quality assurance, provides a mechanism that will reduce the regulatory burden on exporters, while improving the effectiveness of ESCAS and meeting community expectation.

In recognising this opportunity, in 2013 ALEC members supported the commencement of a research project to develop a welfare assurance program and risk management system, the Livestock Global Assurance Program (LGAP). The research effort was focused on designing a complete welfare assurance and certification program based on International Standards Organisation (ISO) guidelines that acts as a regulatory enabler of the current framework, ESCAS. In other words, LGAP is an improved means of demonstrating compliance with ESCAS, not replacing it.

In our initial submission, ALEC argued that there is direct scope for the government to recognise the public good component of ESCAS through investing in the establishment of LGAP by;

- a) Creating the regulatory pathway that enables recognition of suitable independent quality assurance / welfare conformance systems that enables compliance with ESCAS;
- b) Providing financial support for the establishment of LGAP; and

c) Ensuring that there is an appropriate intersection between the Department, the program and certified exporters

In June 2016, the Australian Government showed support for LGAP through announcing \$8.3 million over four years for its development. However, the Commission noted that *‘whether the LGAP could be used by exporters to demonstrate compliance with the requirements of the ESCAS depends on whether it can be shown to assure the welfare of Australian live exports in line with the Australian community’s expectations. It is critical that the community has confidence in the system used to regulate live exports. Incidents of mistreatment of animals in facilities that are within the purview of the ESCAS and that are overseen by the Australian livestock industry reduce community confidence in the trade and the regulator’s effectiveness.’*

In acknowledging that the livestock export industry must do more to be transparent and accountable for its actions, ALEC has undertaken substantial analysis of its social license position with the community and recognises that where the industry has failed to increase accountability and transparency or failed to at least respond to community concerns, problems have been amplified. In addition, the Government’s response to incidents in the past has been to manage public outrage through increased, ad hoc regulation, regulatory creep and micro management. The manner in which the government has responded with heavy handed regulation has not managed community outrage, but substantially increased the cost and regulatory burden on exporters.

It is important to emphasise that LGAP is not intended to, and would not, override a regulator’s oversight or decision making. Instead, it seeks to remove the need for micro management, and allow the regulator to focus on core regulatory functions. A well-defined intersection between the regulator and LGAP, will provide regulatory certainty and consistency to all stakeholders, including the general public. As highlighted above, the delivery of animal welfare provides a community benefit and as such, government has a responsibility to recognise the public good component of ESCAS and commit to the establishment of a suitable quality assurance program.

ALEC’s original submission to the Productivity Commission outlined the significance of Australia’s livestock export trade for all livestock producers, not only those directly involved in the industry. The industry creates essential competition in the market, underpinning national livestock prices and returns at the farm gate.

ALEC’s submission also outlined how, through investment in training, infrastructure development and extension, Australia’s livestock export industry is improving animal welfare globally. Not only is animal welfare good for business, but as outlined above, it provides a community benefit. This must be acknowledged by the Commission and by Government through smart regulatory reform for Australia’s livestock export industry.

In considering its final report, ALEC requests that the Commission;

- reconsider any recommendation to establish an Independent Office of animal welfare to ensure that this inquiry does not increase unnecessary regulatory burden instead of reducing it;
- recognises the public good component of delivering improvements in animal welfare and recommends that Governments provide ongoing support for the Australian livestock export industry, through establishing an efficient regulatory environment; and

- support the development of a suitable Quality Assurance Program within the livestock export industry, providing the regulator with greater oversight and assurance of animal welfare and thus better demonstrating alignment between industry practices and community expectations.

ALEC would welcome the opportunity to speak further with the Productivity Commission about the industry's priorities for regulatory reform.

Yours sincerely,

Simon Westaway
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