LIVECORP

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Commissioner Philip Weickhardt
RDC Inquiry
Productivity Commission
LB2 Collins Street East
Melbourne VIC 8003

Dear Commissioner,

The red meat and livestock RDCs, LiveCorp, MLA, and AMPC, are providing a joint submission in response to the draft report of the Productivity Commission inquiry into the rural Research and Development Corporations model.

LiveCorp, however, wishes to provide separately, material to update an important section of its original submission providing an independent evaluation of the benefits delivered by the programs supporting the livestock export industry that are funded by livestock exporters and producers, and the Australian Government. Material in the original report was based on a draft report by the Centre for International Economics (CIE). Please find attached updated findings from the final report from CIE.

Sincerely,

Cameron Hall
CHIEF EXECUTIVE OFFICER
LiveCorp

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System

Evaluation of LiveCorp/MLA/Australian Government Collaborative Investment in Support of the Livestock Export Industry

In 2009/10 the Centre for International Economics (CIE) applied the comprehensive evaluation framework it has developed to the collaborative program of activities in support of the livestock export industry jointly funded and implemented by LiveCorp, MLA and the Australian Government. The evaluation framework is based on the Department of Finance and Administration framework for accountability to Government. It utilises general equilibrium models of the global meat industries and the Australian economy. The evaluation covers the period 2002-03 to 2008-09.

The industry outcomes observed today in the Australian live animal export market are the result of collaboration between LiveCorp, MLA, the Australian government and industry. This *collaborative* approach has involved:

- the Live Export Program (LEP) a formal joint venture between LiveCorp and MLA that provides benefits to both producers and exporters;
- other LiveCorp activities carried out independently of the LEP in a value-adding role supporting its exporter members and other livestock exporter industry stakeholders;
- the Live Animal Trade Program (LATP) — which is funded by the Australian government to improve animal welfare conditions in the livestock export trade (this program has now been superseded by the Livestock Trade Animal Welfare Partnership, funded 50:50 by LiveCorp/MLA and the Australian Government);
- other activities and policy development through Australian Government agencies such as the Department of Agriculture, Forestry and Fisheries (DAFF) and the Department of Foreign Affairs and Trade; and
- industry investment, a continuing commitment to improving animal welfare and structural change in the industry.

Expenditure

A total of $55 million was invested on behalf of livestock exporters and producers.

- With $30 million through the LEP, (40 per cent by LiveCorp and 60 per cent by MLA).
  - $7.3 million of which could be classified as R&D expenditure
- $12 million was by LiveCorp for activities outside of the LEP; and
- $13.4 million was from the Australian Government through the LATP..

The Collaborative Programs

The evaluation period encompassed a challenging operational environment for the live export industry:

- Following the Cormo incident in 2003, there were high levels of public and government scrutiny of the trade around animal welfare issues on-board and on disembarkation in destination markets;

- The backdrop to these developments was continuing strong market demand in destination markets for both Australian live cattle and sheep to provide fresh meat that could not be met from local domestic sources.
- This scrutiny has led live exports to be one of the most regulated industries and now operating within a range of regulatory structures with overall supervision by the Australian government and to a lesser extent complementary legislation by the states and territories.

The challenge for this evaluation, in this market and regulatory context, was to translate the program activities and outputs, into outcomes and impacts that have resulted in benefits to live exporters, producers who supply the live trade, the wider red meat industry and the wider Australian community.

The LEP has four strategic imperatives.
- Ongoing improvement in animal welfare outcomes.
- Improve industry efficiencies, capabilities and livestock performance through the supply chain.
- Build Government and community support for the industry and increase stakeholder awareness and satisfaction.
- Improve market access conditions and build demand for Australian livestock.

LiveCorp's value-adding role focuses on:
- industry policy implementation, communication and relationship management and consultation with industry and government stakeholders in Australia and in customer countries; and
- representation and support of exporter members on broader industry committees, taskforces and at stakeholder meetings; and
- support and development of the industry.

The outputs and outcomes of the LATP have focused on cooperatively working with trading partners in the Middle East and South East Asian regions to address post-arrival welfare concerns and to improve the transportation, handling and slaughter practices for livestock.

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The Outcomes

The collaborative approach has contributed to sustain the live export trade at higher levels than would have been possible without this co-investment. The value of benefits arising is assessed as the difference between the live export industry benefits seen in the observed case (with the collaborative approach) and an estimate of those that would have arisen under the alternate scenario, as seen in the 'without investment' baseline (without the collaborative approach).
- Without these actions, it would have been difficult for the Australian government to support the trade through the issue of export licenses/export approvals.
- Rather than taking an industry wide approach to licensing and accreditation, the Australian government would most likely have taken a

precautionary approach to licensing of individual export shipments on a case by case basis.
- Exports to what were perceived to be higher risk destinations would have been stopped or only permitted subject to a more stringent range of conditions including shipping to certain destinations, shipping at certain times of the year and possibly the requirement for very conservative stocking densities on-board.

In the case of feeder and slaughter cattle, exports to the Middle East would likely have ceased while exports to Indonesia, the mainstay of the cattle trade, would have stopped but then proceeded on the basis of accreditation of individual shipments or operators.
- Across all markets, total cattle numbers exported could have fallen by an estimated 60 per cent in 2004 and then recovered after three years to around 75 per cent of those that were observed.

In absence of the collaborative approach, it has been assessed that exports of live sheep would have fallen steadily through to 2009, reflecting ongoing uncertainty, throughout industry and government, around the impact of another adverse event on the trade. By 2009, total exports of sheep may have been 3.4 million lower than in the observed case, after which the trade is assumed to largely stabilise around exports of only 1.3 million sheep annually.

The impacts on other markets are less straightforward — an assessment has been made on the basis of the consideration of a number of inter-related factors that would have been in play at the time.
- A factor would have been the risk assessment made by the Australian government on the transport risk and the conditions of livestock handling within each of the markets.
- Another factor would be the level of demand for Australian product and the degree of integration between Australian exporters and customers in each market. That is, some countries may have made representations at government level for re-establishment of the trade.
- Owners of the shipping fleet dedicated to the live trade would have also pushed for the maintenance of the trade to ensure capacity utilisation and so protect their investment in the short term.

Consultation with industry and government revealed that while sustained demand for Australian sheep may have kept the trade open to the majority of the key markets, uncertainties around the possibility of another adverse event would have stifled investment in the industry at all points of the industry.
- This includes the infrastructure within Australia to source and aggregate sheep, the requisite investment in shipping capacity, and improved disembarkation and slaughter facilities within destination markets.

Without the certainty provided by the collaborative approach, the investment that was observed would not have happened to the same level, leading to a gradual decline in export numbers as:
- Middle East markets would have moved to other sources of supply including sheep from South America and North Africa and possibly to

other sources of protein such as subsidised meat exports from the European Union; while
- shipping operators would have directed their capacity to these other live sheep sources.

Quantifying the benefits

At an aggregate level, the gains from the collaborative approach to the live export trade were found to increase export values by $1 446 million over the period 2003 to 2009 — without consideration of any flow-on effects to the Australian livestock industries.

In addition to this higher export performance were the direct benefits to exporters of lower mortalities on board than would have been the case without the collaborative approach. Total savings across cattle and sheep exporters are estimated to amount to $10.9 million over the evaluation period in dollars of the day (the total of $2.8 million for cattle and $8.1 million for sheep).

To quantify the benefits of the LEP/LiveCorp and the LATP, the Global Meat Industries (GMI) model was used to translate the difference between the observed and 'without *LEP/LiveCorp and the LATP*' back into changes in net incomes for exporters and the wider Australian livestock industry.
- Cattle and sheep that would not have been exported would have been diverted to other markets, through the Australian processing sector, incurring a range of additional costs mainly livestock transport.

The impact of the LEP/LiveCorp and the LATP on Australian livestock prices is significant — increasing saleyard prices between 2 and 4 cents per kilogram on a live weight basis for cattle and between 2 and 12 cents per kilogram live weight for lambs and older sheep.

LEP/LiveCorp and the LATP contributes between 1.6 and 2.8 per cent to the cattle industry annual GVP and between 2.0 and 5.7 per cent to sheepmeat annual GVP (excluding the impact on the wool industry).

The investments through the LEP/LiveCorp and the LATP, along with others by government and industry, have together resulted in the benefits of higher exports and lower animal mortality rates during transportation. It is estimated that in broad terms the benefits can be attributed equally between LiveCorp and MLA (both within the LEP plus other activities by LiveCorp); government for the LATP and other policy support; and industry.

For this evaluation, the relative contributions by LiveCorp and MLA have been made on the basis of the respective values of the original investment. This approach is consistent with the Council of Rural Research and Development Corporations Chairs (CRRDCC) guidelines (April 2009). Therefore within the one-third attributable to the combined action of the LiveCorp and MLA:
- 60 per cent of that benefit would be attributable to LiveCorp; and
- 40 per cent to MLA.

The present value of benefits over the evaluation period (2003 to 2015) is estimated at $1.12 billion (5 per cent discount rate).

- This value represents the increase in farm incomes for cattle and sheep producers and the change in net margins (difference between output price and livestock acquisition costs) for exporters and processors.

Around 57 per cent of the on-farm benefits accrue to cattle industry (including producers who supply the live trade) and 43 per cent to the sheep industry (including those producers in the wool industry who sell into the slaughter and live export markets).

- The remainder of the impacts are shared between the live exporting industry and processors.

Based on the logic of the attribution, the sum of benefits in present value terms to LiveCorp and MLA is worth $382 million or one-third of the total benefits to the red meat industry — while the combined benefits to industry and government are worth $742 million.

The table below shows the bottom line for the LEP program. In total, the benefit cost ratio is estimated to be 7.9 to 1 for LiveCorp and MLA.

Benefit cost for the collaborative approach

	Total benefits	***Total costs***	***Benefit-cost ratio***
	$m	$m	
LiveCorp	229	29.0	7.9
MLA	153	19.3	7.9
Total LiveCorp and MLA	382	48.3	7.9

a Net present value of benefits 2003 to 2015 in 2008-09 terms at a discount rate of 5 per cent.
Source: GMI model and CIE calculations.

Other Benefits

A number of spillover benefits can be attributed to the collaborative investment including:

- benefits to the wider Australian community from improvements in animal welfare as evidenced by the ongoing support for the live trade by the Australian government;
- regional impacts of the live trade particularly on rural and remote Australian communities of Western Australia, western Queensland and the Northern Territory; and
- the live cattle trade particularly has contributed heavily to the structural change observed in the northern cattle industry since the mid 1990s which has been confirmed by high rates of total factor productivity growth above those observed in the southern cattle industry for the same period and strong appreciation in land values in the northern

industry reflecting the expectations of the future market prospects for the trade.

There are also a number of ways in which our trading partners have benefitted from higher levels of live exports from Australia, to which the collaborative approach is a contributing factor, and from direct investment through LEP in trading partners. These include:

- improvement in social and economic wellbeing in importing countries of consumers (higher consumption and greater choice) and producers (value adding to imported feeder animals); and
- spillovers from technology and solutions transfer and capacity building particularly from the LEP in addressing specific marketing and technical problems in each of the export markets.