

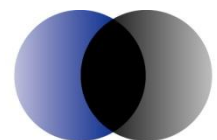


# Australian live sheep exports

Economic analysis of Australian  
live sheep and sheep meat trade

Prepared for the World Society for the Protection of  
Animals

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**ACIL Tasman**

Economics Policy Strategy

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## **The economics of live sheep and sheep meat exports**

ACIL Tasman has been commissioned by the World Society for the Protection of Animals (WSPA) to analyse the economics and policy settings of the live sheep export trade from Western Australia.

### **The nature of the problem**

Virtually all economic activity produces costs and benefits that spill over to others not party to the activity. These costs and benefits are called externalities as they are external to the decisions made by those involved in the activity.

When live sheep producers and exporters are not confronted with the full costs of production (inclusive of the animal welfare concerns of the wider community) they may be making a suboptimal investment decision from the view point of the wider society.

However, cessation of the live export trade, particularly without notice, would be costly to those currently engaged in it.

### **Trade distortions**

The live export trade in sheep from WA became established at a time when the WA lamb market was regulated. The WA Lamb Marketing Board was introduced in 1972 and set the slaughter and wholesale price for lamb. The policy was discontinued in 1999. Live sheep exports do not appear to have been subject to the same regulation and during the 1980s up to 8 million sheep were being exported live from WA annually.

This marketing policy appears to have influenced the structure of the WA processing sector which comprises primarily of small scale processing plants.

It also appears that Australian live sheep consumption in the Middle East is heavily subsidised by Middle East governments. In addition, there are a range of other direct and indirect policies that appear to support the importation of live sheep, most of which are not applied to sheep meat products. For example, frozen sheep meat attracts a 5 per cent tariff in most major Australian live sheep importing countries.

These subsidies probably divert more sheep from Australian sheep meat processors into the live sheep trade than would otherwise be the case. Western Australian sheep producers have responded rationally to the incentive posted

by the subsidies but have also become more reliant on the Middle East trade than they otherwise would be.

## Economic contribution of live sheep and sheep meat processing

There is a significant difference between the value added to a sheep by processing it domestically than if it is exported live. The value adding (output) for a sheep exported live is \$36 but if processed is approximately \$42 to \$47. There appears to be considerable evidence that Middle East consumers are increasingly willing to pay for processed sheep meat from Australia.

It is also likely that if significant substitution between live sheep and processed sheep meat is achieved processing costs per sheep will fall as utilisation increases and economies of scale are improved. These savings will be shared between consumers, processors and WA sheep producers.

Sheep meat processing enjoys higher value added multipliers than the sheep rearing and live sheep export industries. For every \$100 of additional output created by the Western Australian Meat processing industry the State's Gross State Product (GSP) would be \$101.50 higher, whereas for every \$100 of additional output created by the Western Australian sheep industry the State's GSP would be \$81 higher.

## Reducing the externalities of the live export trade

The least cost way of reducing the externalities of the trade for Western Australian farmers and the WA economy is to increase the level of substitution between Australian (and even global) live sheep and Australian processed sheep meat in the major live export importing countries.

This would ensure that:

- There is limited substitution between Australian live sheep and live sheep from other origins.
- Full value adding opportunities can be captured by the WA economy.
- There would be a corresponding reduction in the reliance of the WA sheep industry on the live sheep trade to the Middle East, which is dependent on the continuation of subsidies and other trade distortions that are inconsistent with the Australian Government's advocacy of free trade.

Substitution of Australian live sheep with Australia processed meat could be achieved using a combination of a number of strategies including:

- Correction of the distortions caused by the subsidies applied to live sheep, by reducing them or applying them to both live and processed products.



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### **Australian live sheep exports**

- Removal of the 5 per cent tariff on frozen sheep meat applied in a number of Middle East countries.
- Greater dedicated marketing by government and industry designed to promote Australian processed sheep meat products in the Middle East and other export markets.
- Vertical integration between the WA sheep industry and the Middle East, e.g. Middle East investment in major WA processing facilities and/or a WA processor alliance with major sheep meat wholesalers.

A reduction of the subsidies, and/or their application to processed products, requires Australian governments to lobby the major subsidising importing countries. Lobbying to reduce the distortions of the import subsidies appears to be in the interests of the Western Australian economy and welfare groups if the live sheep are substituted with sheep meat processed in WA. If this substitution is achieved WA farmers may be no worse off if it leads to improved processing efficiencies that they would in part benefit from, and it would lead to a reduction in the reliance on the Middle East market.