

# live *export*

## **The Live Export Industry:**

### **Value, Outlook and Contribution to the Economy**

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## **Executive Summary**

This study provides a quantitative and qualitative assessment of the value of the livestock export industry to the Australian economy and the regional communities where the industry is conducted. It also includes an assessment of the impact a closure of live trade would have on the livestock industry across Australia.

Live sheep and cattle exports are a major sector of the Australian livestock industry, earning an average of \$830 million<sup>1</sup> annually between 2001 and 2005.

The 4.2 million sheep exported live in 2005 represented 12% of the total sheep and lamb turn-off. The 573,000 cattle exported live in 2005 represented 7% of the total cattle turn-off<sup>2</sup>. The prosperity of Australian sheep and cattle producers is linked to the live export trade as domestic prices are underpinned by the trade.

The live export of beef cattle industry is centred on ports in the north of Western Australia and from the Port of Darwin in the Northern Territory. The live sheep export industry is centred on Fremantle, Western Australia. The export of dairy cattle sourced from southern Australia, in particular, Victoria, is a growing live export sector.

### **Importance of the live export industry to the domestic market for livestock**

Cessation of livestock exports would have an immediate adverse impact on the sheep and cattle industries, as well as a longer term structural impact.

The sudden loss of live export markets, when they account for high proportions of turnover, would inevitably cause temporary financial chaos and social hardship for producers. This is particularly true in Western Australia and the Northern Territory. Demand shocks in cattle and sheep live export markets over the last ten years have seen prices fall by 40-50%.

Any significant interruption to livestock exports would impact domestic livestock markets as cattle and sheep that were destined for export are diverted back onto local markets. The impact would be greatest in regions from which live exports are sourced, but would soon have a 'knock-on' effect across national markets.

The initial regional price drop will ease as livestock are moved (incurring transport costs) to more distant markets where the additional supply will reduce prices. This 'knock-on' effect will continue until all national markets are pushed lower to varying degrees, as determined by transport costs.

Using the most detailed model of its type<sup>3</sup>, this study has measured the consequence of a closure of both cattle and sheep export trades on the wider domestic market in the medium term. The model calculated the price impacts across the entire national market and was based on data for the three years 2002 - 2004. The annual basis of the model means that the results relate to livestock markets that have adjusted to the changed circumstances; it does not quantify the initial regional level impacts. As it is an aggregated model across the whole of the national market the model runs do not report seasonal and regional level price impacts.

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<sup>1</sup> Free on Board (FOB).

<sup>2</sup> Cattle slaughter numbers for 2005 are preliminary estimates (MLA 2006).

<sup>3</sup> The Global Meat Industry model developed by the Centre for International Economics.

For the beef cattle sector, farm gate prices for cattle would have been over 9 cents per kilogram live weight less and across the sector Gross Value of Production (GVP) would have been approximately \$400 million less in the first year after any total closure of the trade and \$330 million less each year thereafter.

For the sheep sector, farm gate prices for sheep would have been nearly 17 cents per kilogram live weight less and lamb prices 7 cents less without the live sheep export trade. The loss of sheep and lamb sector GVP would be \$220 million per year, after closure of the live export trade.

Based on these estimates a closure of the live export trade in cattle and sheep would cause an ongoing reduction in the GVP of Australia's sheep and beef cattle industries in the order of \$550 million per annum. This loss is a 6% reduction in the 2004 gross value of the entire cattle and sheep meat industry for 2004 (ABS 2005).

### **The next 5 years**

The future for the live export industry looks positive with markets forecast to increase for both cattle and sheep. These markets are reliant on only a few major importing countries, making the industry sensitive to shocks. Despite this, the industry has managed to absorb demand shocks and re-establish markets through proactive policies and strong relationships with customers.

Live cattle exports are forecast to rebuild almost 40% to 800,000 head by 2010 and higher in the following year. The biggest risk to these forecasts is a shift in trade policy by the Indonesian Government to allow freer entry of cheaper beef from Brazil, Argentina and India.

Forecasting future value of the live cattle export trade is highly problematic, but maintaining the current value of a little over \$500 million for the next one to two years is highly likely. If cattle prices fall by 10 to 15%, the value may ease back slightly, but as the numbers exported expand to 750-800,000 head, an annual value in the order of \$550 million is expected.

This review supports the Meat and Livestock Australia (MLA) forecast that sheep exports will rebuild quite strongly over the next five years, with expectations of reaching 5 million head in 2010.

### **Impact on the national economy**

The livestock export industry value chain is complex and relatively long. Up to 30 separate business types, each generating additional value and employing people in both urban and regional Australia have been identified. The businesses that are involved in the industry are often specific to the live export industry, or generate the vast majority of their revenues from live export activity. It is often the foundation of a business which supplies other requirements in remote areas.

The National Institute of Economic and Industry Research (NIEIR) found that over the past 5 years the live export industry contributed the following to the national economy:

- 12,924 jobs;
- Wages and salaries totalling \$987 million annually; and
- \$1.80 billion to gross domestic product per annum.

This employment number is based on general equilibrium modelling, which estimates the effect of expenditure along the value chain on other sectors of the economy. In a similar study in 1999, it was estimated that the live export industry generated 9,080 jobs in the economy (Hassall & Associates 2000). The main reason for the additional 4,000 jobs is structural changes in the economy since 1999, such as increasing import penetration and changing capacity utilisation rates for agriculture and the broader economy. These changes have led to higher multiplier values associated with economic activity generated by live exports. The industry has also grown in value since 1999. This has been due in part to the establishment of the dairy cattle live export market. However, the majority of the growth in value has been based on increased export numbers during the early part of the decade for sheep and cattle and, since 2001, an increase in the revenue per head, particularly for live sheep exports.

### **Conclusion**

The information provided in this study illustrates the need for considered policy debate regarding the live export industry. The effect of any significant change to the industry would fall disproportionately to regional areas. In addition, the short to medium term impacts would be felt by all livestock producers across Australia, as livestock prices would fall in response to additional supply on the domestic market.