Executive Summary

ACIL Tasman (2009) 'The value of live sheep exports from Western Australia: A review of adjustments that would be required if live exports ceased from WA'. Study commissioned by RSPCA Australia. ACIL Tasman, Canberra.

Approximately 4.2 million sheep were exported from Australia in 2008. On average, 75-80% of live sheep are exported from Western Australia to the Middle East where they are slaughtered according to religious custom.

In late 2008, RSPCA Australia commissioned a study to look at the likely scale and scope of the adjustments that would be required to the WA sheep industry if the exportation of live sheep were to cease. This study was undertaken at a time of continuing structural adjustment in the Australian sheep industry. Due to ongoing dry conditions, depressed wool prices and relatively strong crop returns, the Australian sheep flock has contracted to levels of the early 1930s.

The live sheep trade has developed in Australia because the economic returns from this activity exceed the costs. For those involved in the trade, there are strong incentives to improve the health and mortality rates of sheep in transit. However, the incentive to manage the health of the animal only extends to the point where the costs are lower than the economic benefits internal to the trade; this decision may not fully take into account all of the animal welfare concerns of the wider community.

This study has employed an unconventional, yet very comprehensive, method for valuing the live export trade for sheep enterprise managers in WA by analysing the whole of flock changes that would result from a cessation of the live export trade.

Each sheep enterprise manager in WA makes management decisions that include the option to sell sheep to the live export trade provided that the sheep meet certain health, age, weight and condition score specifications. That is, the live export trade is one marketing option for the sheep enterprise that may or may not be used. Removing this option will affect the breeding, genetic selection and pasture management decisions for the whole flock.

The adjustment process in the event of a cessation of the trade was modelled for three different flock structures typically run in WA:

- A merino flock where a proportion of the wethers are retained for wool production for 5 years.
- A merino flock where all wethers are sold before they reach 2-3 years old.
- A merino ewe flock where a mix of merino and first-cross lambs are produced.

This analysis has identified that while adjustments would be required by WA sheep producers, they do not appear to be extensive compared to other structural adjustments already underway in the industry:

- Sheep suitable for the live export trade are only one of a wide range of outputs of a merino flock on an average WA farm with live sheep equating to 3-7% of total farm receipts for farms with more than 300 sheep – a small and declining percentage.
- The adjustment costs are about 3-4% of the investment value of a ewe or wether, where increasing merino and cross bred prime lamb production is possible.
- Where switching to selling merino wethers earlier for slaughter or switching to prime lamb production is not available, the cost could be as high as 13% of the value of a wether. However, this is likely to be a small proportion of the total farming population in WA.
- For mixed farming systems, which account for the majority of WA farm businesses, the loss of the option to sell live export sheep is not likely to create a significant incentive to replace

large areas of pasture with crop because other drivers of land use change are already providing this incentive, e.g. below average rainfall, declining wool prices, and higher productivity gains in cropping.

The cost of adjustment to a market where the live sheep trade is not available could be minimised by progressively phasing-out live sheep exports. This would allow flock structures to be altered and wethers suitable for the live export trade to be gradually sold off. By phasing out the live sheep trade over a period of five years, the impact on the Australian economy would be $200 million.

A system could be established whereby WA sheep farmers are allocated an annual quota of sheep able to be supplied to the live export market. To allocate these quotas efficiently, there are three options:

- auction off the quota allocations at the beginning of each year;
- issue to each producer a share of the quota, pro-rated on the number of sheep they have as a proportion of the total state flock; or
- issue the quota pro-rated on the historical number of sheep as a proportion of the total number of sheep sold to the live export market by each farmer, averaged over the last 4 or 5 years.

Quotas would be freely transferable allowing farmers to sell their quota, or a portion of it, to other farmers. This would allow those farmers most affected by the cessation of the trade to defer the majority of the costs of adjustment for as long as possible or allow farmers to use some of the efficiency gains of the quota system to offset some of the adjustment costs.

This analysis has identified that, for an average WA mixed farming enterprise:

- Adjustments would be required by WA sheep producers, but they do not appear to be extensive compared to other structural adjustments already underway in the industry.
- The option to sell sheep to the live export trade is worth $2-$6 per wether or 3-7% of total farm receipts.
- A transferable quota system would allow farmers to defer or offset some of their adjustment costs.