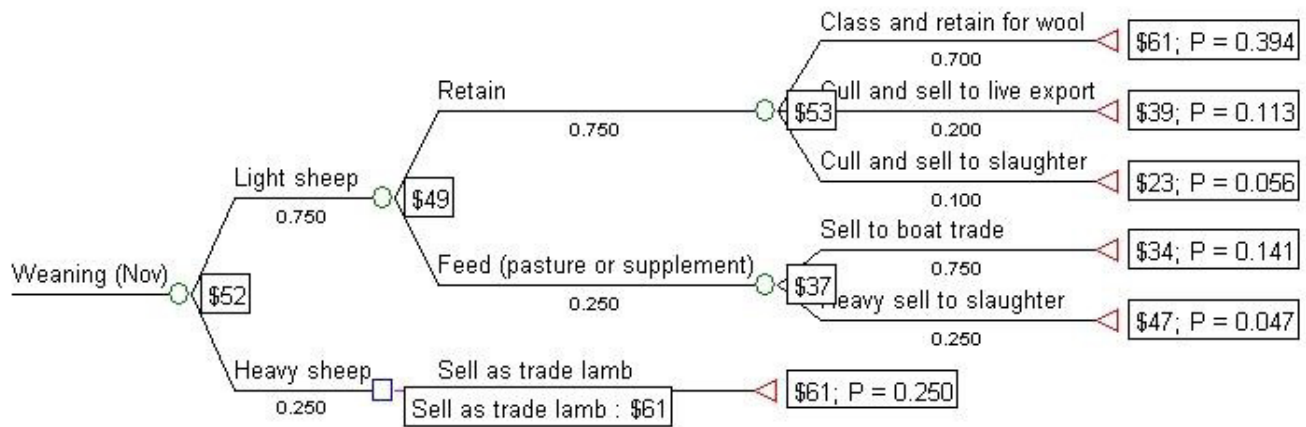


Phasing out live sheep exports: Farm level adjustments<sup>1</sup>

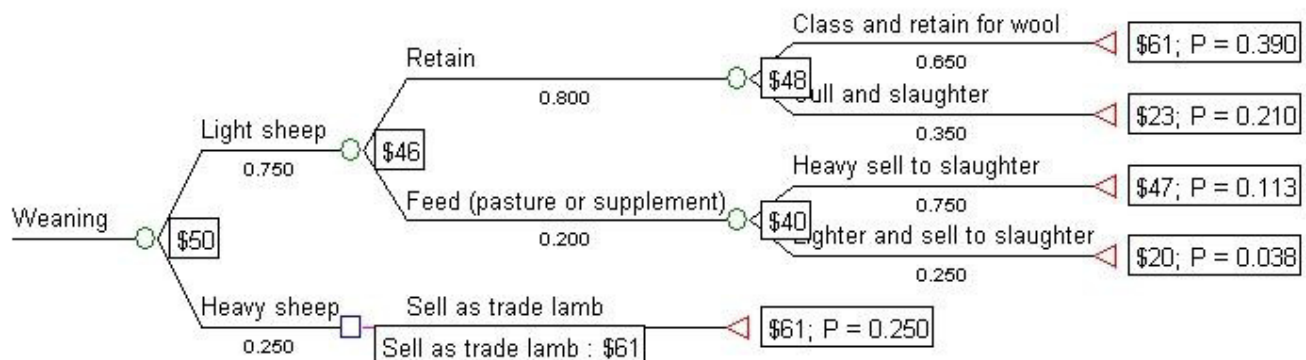
Access to the live sheep trade influences the way in which farmers manage the use of resources and make decisions about the breeding, culling, pasture management and genetics for their enterprise. These decisions are, in turn, influenced by feed availability, market price and sheep condition. Economic modelling using ‘real options methodology’<sup>2</sup> shows how easily farmers can adjust in the absence of the live sheep trade.

**Do you retain a portion of your wethers for wool?**

With live sheep exports available, your decisions may look something like this:



Without live sheep exports:



The effect of removing the live sheep market option is that farmers would be reluctant to incur the additional costs of preferentially feeding the light sheep that did not make prime lamb market specifications. These numbers would therefore be reduced with more sheep retained for classing and possible retention. More numbers would be sold for slaughter.

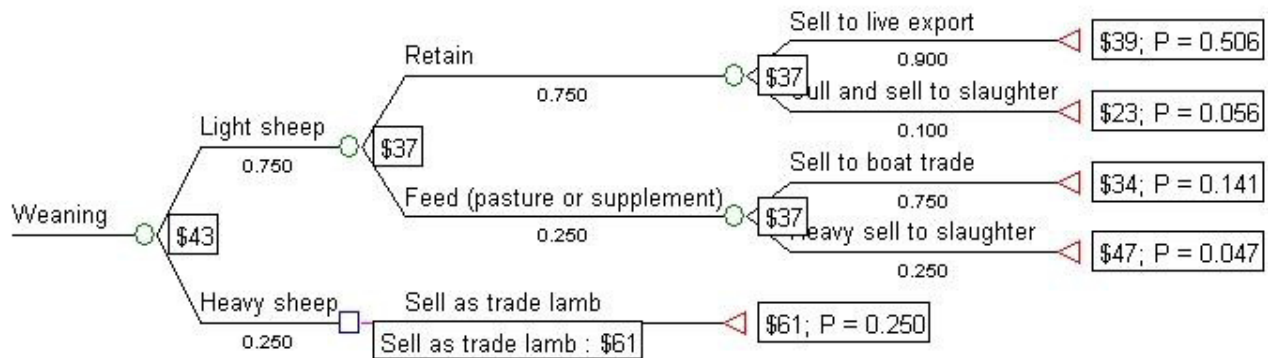
In this scenario, the value of the option to sell into the live sheep trade is \$2.00 per wether or 4% of the total value of the wether.

<sup>1</sup> Based on 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.

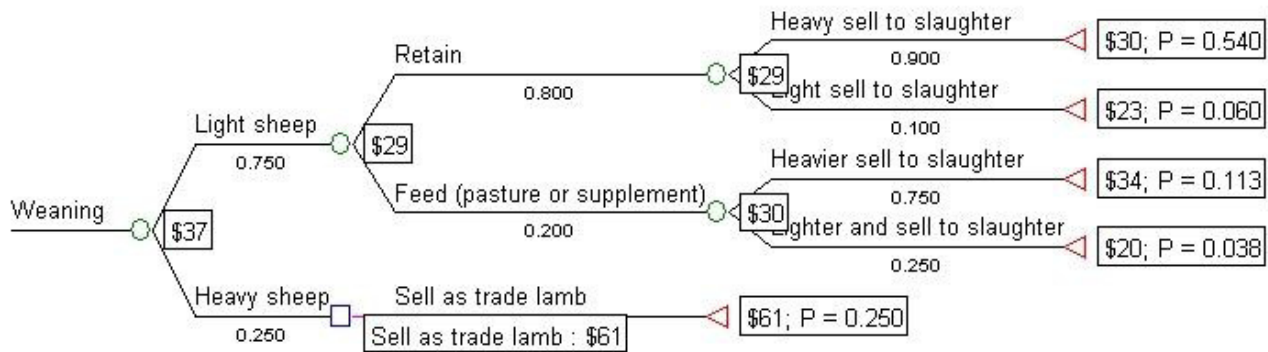
<sup>2</sup> Real options methodology provides a sound basis for valuing the opportunities available to farmers as they adapt to technological or market changes. The triangles on the decision tree represent the net present value (NPV) for each outcome - i.e. they show the value of the farmer’s option to deliver into that market.

**Do you sell all your wethers before they are 2-3 years old?**

With live sheep exports available, your decisions may look something like this:



Without live sheep exports:

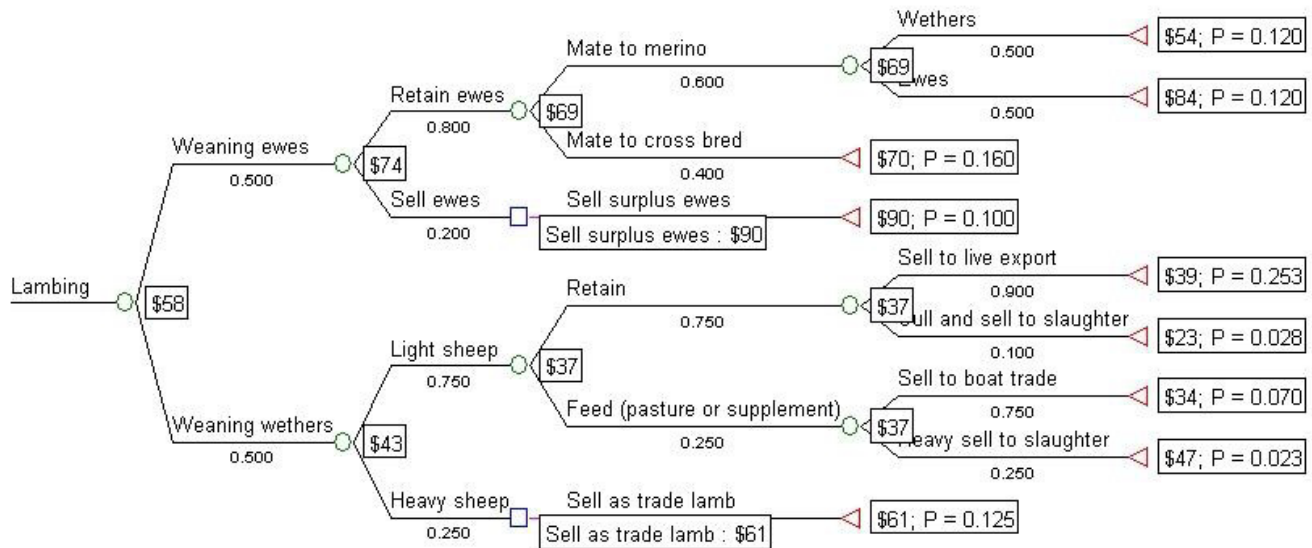


The effect of removing the live sheep market option in this flock structure is that the farmer may choose to keep wethers that don't meet prime lamb specifications for another year in order to obtain another fleece before selling them. This flock structure is becoming increasingly uncommon in WA as most enterprises will replace these wethers with ewes mated to cross-breds for lamb production.

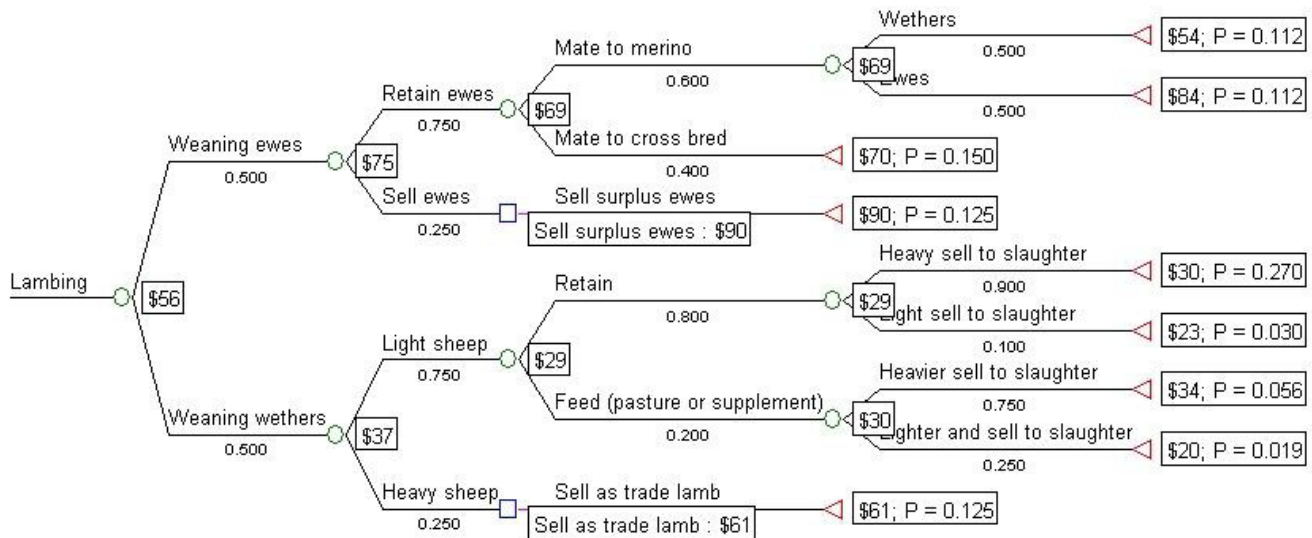
In this scenario, the value of the option to sell into the live sheep trade is \$6.00 per wether or 13% of the total value of the wether.

**Do you produce merino and/or cross-bred prime lambs?**

With live sheep exports available, your decisions may look something like this:



Without live sheep exports:



The effect of removing the live sheep market option is that farmers will sell more ewes after weaning as wethers formerly sold to this market would be kept longer to produce an additional fleece.

In this scenario, the value of the option to sell into the live sheep trade is \$2.00 per wether or 3.5% of the total value of the wether.

**What is the overall effect on mixed farming enterprises of removing the live sheep market?**

Removing the live export option isn't likely to create a significant incentive to replace large areas of pasture with crops. Current drivers of land use change - e.g. agricultural commodity markets, changes to land use technologies, changes to government policies that may favour one activity over another - have a far greater impact on the enterprise than the relatively small impact resulting from the loss of the live sheep market. For example, a change in the price of wheat will have a huge impact on enterprise gross margin compared to the relatively small effect of losing access to the live sheep market. An analysis of the effect on the value of mutton shows that a 10% fall in the value of mutton will only result in a 3% change in the overall value of the wether. Of much greater influence on the value of the wether is the cost of capital (i.e. interest rates and alternative uses of the farmer's capital).

The loss of the option to access the live sheep market would have a modest impact on sheep net present values even if a large drop in mutton values were to occur.

**What is this Report?**

This is an independent report by ACIL Tasman that was commissioned by RSPCA Australia to look into the adjustments required if live sheep exports from Western Australia (WA) were to cease. The Report concludes that adjustment costs and the impact on farmers will be modest if the trade is phased out over five years and a transferable quota system is implemented to manage the gradual reduction in the number of sheep available for live export over that period.

Read the report and decide for yourself: [www.rspca.org.au/report](http://www.rspca.org.au/report)